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THURSDAY JANUARY 14 1999

US impeachment
Depressing spectacle damages global role
James Baker, Page 10

Euro-zone investing
It pays to think big in euro markets
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Japanese billionaire
Addicted to success amid corporate gloom
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Iron ore
Producers fight deep price cuts
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WORLD NEWS

Santer threatens to resign over MEPs' rebellion

Frantic efforts were under way at the European Parliament last night to head off a vote to fire the 20-member European Commission, the EU's executive body, after its president, Jacques Santer, earlier threatened to resign. Deep divisions over the fate of the Commission have opened up between left and right. **Page 12; Analysis, Page 3; Editorial Comment, Page 11**

Italy concerned at euro prices
Italy's treasury has expressed concern at the charges Italian banks are demanding to exchange euro-zone currencies, and has appealed to them to bring pricing policies into line with the spirit of the single currency project. **Europe, Page 3**

Paris speaks against Iraq embargo
France launched a diplomatic offensive to convince the UN Security Council to drop the oil embargo against Iraq, in place since the 1990-91 Gulf war, in favour of a more easily enforceable system of monitoring and sanctions. **Page 12**

Obuchi set to reshuffle cabinet
Japanese prime minister Keizo Obuchi is set to reshuffle his cabinet today after the ruling Liberal Democratic party and the Liberal party resolved their differences and paved the way for a coalition government. **Asia-Pacific, Page 5**

Fresh Kosovo crisis averted
International monitors defused a fresh crisis in Kosovo by securing the release of eight Yugoslav soldiers held by ethnic Albanian rebels, but diplomats feared the province was still heading back towards war. **Europe, Page 3**

End in sight for 'cyber squatters'
A new system aimed at ending "cyber squatting" on internet address sites could be in place by the middle of this year, an official of the World Intellectual Property Organisation indicated. **International, Page 6**

Bonn urges integration
Germany's government appealed for closer integration of 7.3m foreign residents as it published plans for overhauling citizenship laws and sanctioning dual nationality. **Europe, Page 4**

Tokyo denies steel exports cut
Japanese officials denied they planned to curb steel exports to the US under pressure from Washington, insisting last year's surge reflected increased US demand. **Trade, Page 6**

France extends 35-hour week
The introduction of the 35-hour week has been extended to France's state sector in an agreement between management and unions at EdF, the electricity monopoly. **Europe, Page 4**

IMF to pay Zimbabwe $53m
An IMF team is to recommend the disbursement of a further $53m tranche of a $176m loan to Zimbabwe after months of delays. **International, Page 6**

Zyuganov expects Yeltsin vote
Russian Communist party leader Gennady Zyuganov said a vote to impeach President Boris Yeltsin could come as early as next month. **Europe, Page 4**

BUSINESS NEWS

LVMH chief Arnault courts senior Gucci managers in Milan

Bernard Arnault, chairman of LVMH, the French luxury goods group, flew to Milan to court the management of Gucci, the Italian fashion company in which he has an estimated 20 per cent stake. LVMH had earlier denied it planned to bid for Gucci. **Companies and Markets, Page 13**

General Electric Company of the UK has told British Aerospace it must come up with acceptable terms by the end of this week if it wants to buy GEC's Marconi defence electronics arm. **Companies and Markets, Page 13; Lex, Page 12; BAe in defence talks, Page 14**

Paribas, the French bank, announced a sweeping reorganisation aimed at preparing it for international expansion. **European companies, Page 14**

BASF, the German chemicals group, is to buy back up to 5 per cent of its shares, signalling a commitment to increasing shareholder value. **Companies and Markets, Page 13; Lex, Page 12**

Ford Motor senior planners who are touring Europe are believed to be backing the possible acquisition of Volvo's car division. **US companies, Page 16**

Alex Krauer is stepping down early as chairman of Novartis, Switzerland's biggest pharmaceuticals company. The move will increase speculation that he is set to become chairman of UBS, Europe's biggest bank, on a permanent basis. **European companies, Page 14**

Toyota, Japan's biggest vehicles group, unveiled a new hatchback – known as the Vitz in Japan and the Yaris in Europe – which it hopes will spearhead its push into Europe. **International companies, Page 17**

The co-founders of Livent, the bankrupt Canadian theatre production group, were indicted by a US federal grand jury on 16 felony counts of conspiracy and securities fraud. **Companies and Markets, Page 13**

British Airways and Japan Airlines unveiled a co-operation agreement, but the Japanese carrier said it had not decided whether to join BA's Oneworld alliance. **Trade, Page 6**

Nortel Networks, the Canadian communications networking company, expects to save up to US$300m a year by streamlining operational procedures. **US and Canadian companies, Page 16**

Kohlberg, Kravis Roberts, the US leverage buy-out house, confirmed plans to raise a multibillion dollar European buy-out fund. **European companies, Page 14**

Yahoo!, the company with the most used internet website, has reassured an industry renowned for its losses by reporting its first full year of profits. **Companies and Markets, Page 13**

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. **Page 20**

WORLD MARKETS

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	9,343.89	(-130.78)
NASDAQ Composite	2,328.09	(+7.34)
Europe and Far East		
CAC40	3,958.72	(-141.98)
DAX	4,931.80	(-268.30)
FTSE 100	5,850.1	(-183.5)
FTSE Eurotop 300	1,169.65	(-46.26)
Nikkei	13,403.60	(+42.63)
US LUNCHTIME RATES		
Federal Funds	4.9375%	
3-mth Treas Bills: Yld	4.44%	
Long Bond	101	
Yield	5.18%	
OTHER RATES		
UK: 3-mo Interbank	5¾%	(5½)
UK: 10 yr Gilt	137.30	(136.54)
BBA Eurolibor	3⅜%	(same)
Germany: 10 yr Bund	107.89	(107.31)
Japan: 10 yr JGB	100.607	(100.29)
NORTH SEA OIL (Argus)		
Brent Dated	$10.80	(11.79)

GOLD		
New York Comex		
(Feb)	$287	(289.5)
London:	$285.45	(288.45)
DOLLAR		
New York lunchtime		
£	1.649	
€	0.8569	
SFr	1.3855	
Y	113.665	
London:		
£	1.6525	(1.6306)
€	0.8544	(0.8664)
SFr	1.3557	(1.3809)
Y	113.655	(111.80)
Tokyo close:		Y 111.675
EURO (London)		
$	1.1704	(1.1543)
£	0.7081	(0.7079)
Y	133.016	(129.045)
SFr	1.5887	(1.6055)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.66	South Africa	R18
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FmK13.00(€2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.75	Morocco	Dh16.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr18.00	UAE	Dh13.00

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G7 POLICYMAKERS CONCERNED DEVALUATION COULD TRIGGER WORLD RECESSION AS SHOCKWAVES HIT FINANCIAL MARKETS

Brazil crisis sparks global fears

By Robert Chote in London

The possibility that emerging market economies may face a fresh wave of financial crises yesterday confronted the world's leading economic policymakers after Brazil in effect devalued its currency.

The Brazilian central bank was forced to devalue the Real by about 8 per cent, following a crisis of confidence triggered last week when a rogue state governor announced a 90-day moratorium on debt repayments to the central government.

Policymakers from the Group of Seven leading industrial countries fear the devaluation could prompt investors to withdraw funds from other emerging markets and risky investments, at worst triggering crises elsewhere and pushing the world closer to recession.

President Bill Clinton said US officials had discussed the implications of Brazil's move with counterparts from other big economies and the International Monetary Fund.

The IMF staked its reputation on a $41.5bn support package for Brazil's reform efforts last year, which will now have to be re-examined.

President Clinton said the US had a "strong interest" in seeing Brazil's economic reforms succeed. Officials from the Group of Seven nations will discuss the crisis on Saturday, on the sidelines of a conference of Asian and European finance ministers.

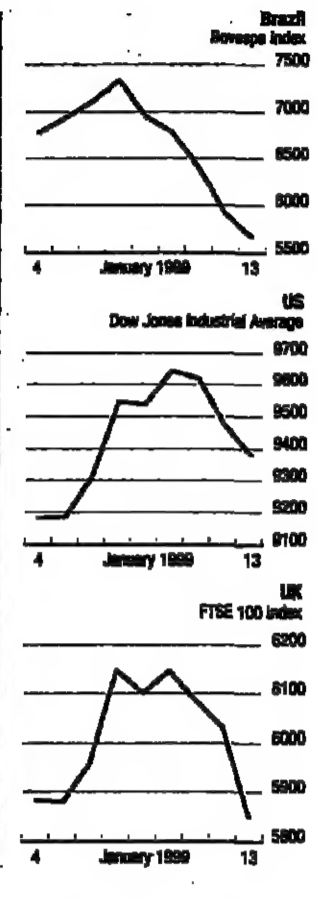
The crisis sent shockwaves across global financial markets, weakening the dollar, pushing stock markets lower and prompting a dash to relatively safe industrial country bond markets.

Trading on Wall Street was highly volatile, with the Nasdaq Composite index, which includes all the largest technology companies, dropping 5 per cent and then regaining all its losses by midday. The Dow Jones Industrial Average initially fell 261 points – or nearly 3 per cent – before staging a recovery. By late afternoon trading it had rebounded to trade at around 9,428, down about 46 points.

Banks and other financial services companies were the worst affected, with Citigroup down 10 per cent at one point.

The UK equity market was in freefall ahead of Wall Street's opening, before rallying strongly to close the day a net 183.5 points lower at 5,850.1 – the biggest drop in a single London session since December 1. The potentially damaging impact on the US economy pushed the dollar to its lowest against the euro this year at $1.18, before it recovered to $1.17. Commodity markets also took a hit, with the devaluation making it cheaper to buy Brazil's key export crops of coffee and soybeans.

Brazilian traders react as the market opens



The Brazilian authorities brought about the devaluation by abandoning the narrow band within which the Real could move and allowing it to drop to R1.32 within an existing wider band. The Real promptly sank to its newly permitted floor, amid market scepticism that the new arrangement would last.

"It is not very often that moving a band can hold a currency," said Jonathan Chapman, head of foreign exchange in London for Standard Chartered Bank.

"Moving a band delays things and the likelihood is that it will go."

The Real's "crawling peg" against the dollar has formed the cornerstone of the country's four-year economic recovery, following decades of high inflation.

Gustavo Franco, governor of the Brazilian central bank, resigned when the devaluation was announced, but President Henrique Cardoso insisted the move to a wide fluctuation band for the currency was merely a "technical modification".

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Economic turmoil prompts political uproar

By Geoff Dyer in São Paulo

Brazil's slow-burning economic crisis erupted into political turmoil after the government yesterday abandoned the strong currency policy which has served as the anchor of its anti-inflation strategy.

The government acted by devaluing the Real following the fourth assault on its currency in 18 months and a steepening recession.

Francisco Lopes, who took over as head of the central bank after Gustavo Franco resigned, warned that the new policy would only work if capital outflows slowed and public spending was cut.

The new policy drops the narrow trading band which permitted the Real to depreciate gradually against the dollar, in favour of a wider band. This allows for an immediate devaluation of around 8 per cent and a further 3 per cent over the course of the year.

After the failed attempts by Mexico in 1994, Thailand in 1997 and Russia last year, Brazil is the latest emerging economy to walk the tightrope of trying to engineer a controlled and modest devaluation.

The government said it would use reserves and, if necessary, higher interest rates to prevent the sort of uncontrolled overshooting that has characterised recent attempts by developing countries to devalue currencies.

The political uproar was made worse by the resignation of Mr Franco, the government official most closely associated with the previous strong currency policy.

"It was never my intention to act as a hindrance to the natural re-orientation of interest rate and foreign exchange policies," said Mr Franco, who had become the focus of attacks on the government's austerity strategy. Mr Lopes, who was the bank's monetary policy director, said the main objective of the more "flexible" currency policy was to create conditions for reducing the high interest rates suffocating economic activity.

Fernando Henrique Cardoso, Brazil's president, said the shift in currency policy would not detract from the main aim of reducing Brazil's crippling budget deficit, around 8 per cent of gross domestic product, which has been the main cause of the economy's vulnerability.

"Any reduction in interest rates will depend on progress on the fiscal adjustment," he said, in the sort of authoritative tone that critics have found lacking in his recent public pronouncements.

At the back of his mind must have been the knowledge that failure to control the devaluation could precipitate the return of inflation, robbing Mr Cardoso of his main political achievement and dealing a death-blow to his second term, which only began 13 days ago. In its favour, Brazil has $45bn of reserves to defend the new rate and it already has in place a $41.5bn package of emergency aid.

Lucent confirms $19.3bn Ascend deal

By Roger Taylor in San Francisco and William Lewis in New York

Lucent Technologies, the US telephone equipment company, said it would continue its recent hectic pace of investment as it confirmed details of a $19.3bn deal to acquire Ascend Communications yesterday.

The Ascend deal comes two days after Lucent acquired Kenan Systems, the leading US provider of billing and customer service.

Richard McGinn, Lucent chairman and chief executive, said: "We will be making further investments, both organically and through acquisitions," adding that the company would target high growth areas including data networking, communications software and optical technologies.

Lucent's offer of 0.825 of one of its shares for each Ascend share, was a premium of almost 25 per cent over Ascend's value last Friday of close to $16bn. However, Lucent shares dropped 4.5 per cent to $103 yesterday lunchtime, reducing the value of the all-stock offer to $18.4bn. Ascend shares rose 6 per cent to 79\frac{1}{16}$.

Lucent justified the price saying that the acquisition would be earnings neutral initially and accretive next year. It expects the acquisition to add 2-4 per cent to earnings in 2000 without including the benefits of any synergies between the two groups.

Lucent said it expected the deal to be completed by June 30.

Lucent said it would immediately integrate Ascend with its own data networking operations, optical networking and communications software group to create the "undeniable leader" in the market for "next-generation broadband networks". Mr McGinn said this new division would be larger than Lucent's operations in its traditional market for telephone equipment.

Mory Ejabat, chief executive of Ascend, said he would remain with Lucent for a transition period to oversee the integration of the businesses. The new Broadband Networks Group will be headed by Dan Stanzione, president of the Bell Laboratories division of Lucent. Analysts said the deal would put pressure on European telecoms equipment manufacturers such as Siemens, Alactel and Ericsson.

Lucent was advised by Goldman Sachs and Ascend by Credit Suisse First Boston.

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WORLD NEWS

THE BRAZILIAN DEVALUATION

Cardoso: fingers crossed AP

Policymakers hold their breath on Brazil

By John Authers in New York and Gerard Baker in Washington

A Brazilian collapse has been at the top of US policymakers' list of worst nightmares for most of the last year.

While the American economy ended 1998 in much the same condition it started the year – rude good health – should the latest financial crisis turn into a full-blown Brazilian slump, the damage to the US and the world could be much more serious.

President Bill Clinton admitted as much yesterday when he said his administration was scrambling to limit the damage.

"We have worked hard to keep the financial crisis which enveloped Asia last year from spreading to Brazil. Latin America is our fastest growing market for American goods and services, and Brazil is the largest country in Latin America. So obviously, we hope that the situation will be resolved in a satisfactory way."

Meanwhile, on Wall Street, the principal concern yesterday was the potential impact of a Brazilian crisis on capital markets. Stocks lurched lower in the morning, but although the Nasdaq Composite index, which includes most of the largest technology companies, dipped by more than 5 per cent in early trading it had regained all its losses by midday. Most large exporters avoided any serious falls in their share price.

Latin America – including Mexico – absorbs about the same amount of US exports as east Asia or Canada – roughly 20 per cent of the total. However, the initial reaction from companies was that Brazil and the rest of the region had been expected to show very slow growth this year.

John Lipsky, chief economist at Chase Manhattan, described the news as "one of the more anticipated shocks of recent years".

"For now, the markets have reasonably reflected the increased risks. But if this represents the first stage in a failure of Brazilian stabilisation efforts, then the impact will be rather more negative."

The immediate fear at the White House, the Treasury and the Federal Reserve is that Brazil's problems could produce a re-run of the financial crisis that hit US markets after the Russian devaluation last summer - this time without the happy ending.

Michael Moskow, head of the Chicago Federal Reserve Bank, said Brazil was a "very key country" and the situation serious. "We all have to watch it carefully," he said. But he said he was hopeful recent events would not throw the fiscal austerity strategy being implemented by Brazil's federal government off course. "They are moving in the right direction and I'm hopeful that will continue," he said.

Following the Russian crisis, financial markets in the US seized up. Issuance in the main corporate bond markets came to a virtual standstill in September and October last year, and only recovered after three cuts in rates by the Fed. This began to apply a tight squeeze on availability of credit to companies, and there were fears this could be translated into a broader recession.

Max Bublitz, chief executive of Conseco Capital Management, said the Brazil crisis "has got the potential to become the third wave of this whole process that's been going on for 18 months. The point isn't so much what's going on fundamentally. Russia's component of the global gross domestic product was next to nothing, but from a psychological standpoint the damage was done. When you're at the valuations that our stock market is at, it's susceptible to shocks to psychology."

He said fixed income markets in the US were still functioning much more sluggishly than they had before the Russian crisis, and predicted they could see a further liquidity slowdown.

Issuance of bonds by companies is returning to normal, but spreads over treasury bond yields remain high by historical standards.

There are concerns in Washington too about the longer-term impact on the US. In 1998, the overall economy brushed off the effects of the Asian crisis – growing by almost 4 per cent. But that broad picture disguised turmoil in the traded sector. As a result of the Asian slump, US manufacturing is, in effect in recession.

Only remarkably strong consumer spending has buoyed up the rest of the economy. The danger is that Brazilian disruption could widen the gap between manufacturing and the rest of the economy – with the industrial slowdown eventually pulling the rest of the economy into slump.

But officials are not hitting the panic button yet. Brazilian demand, along with that of the rest of Latin America, was already slowing sharply in the second half of last year, so the impact on US exports was already being felt. In Asia, by contrast, US exports collapsed suddenly in less than a year from near-record levels in early 1997

Only if Brazil's woes intensify dramatically – and spread to the rest of Latin America – will US manufacturing take another hit comparable to the one it took from Asia.

But even if the effect is not as dramatic, the damage would further emphasise just how much the US depends on the remarkable strength of domestic demand.

CENTRAL BANK LOOKING FOR RATE CUTS

Brazil 'will hold talks with IMF'

By John Barham in São Paulo

Francisco Lopes, the new president of Brazil's central bank, said yesterday that devaluation of the Real was not included in last year's stand-by agreement with the International Monetary Fund.

"We have to go back and talk to the Fund", he said yesterday, conceding that he was not sure what kind of "arrangement" the IMF now expected from the Brazilian government.

Brasília was "counting on support from the Fund," he said.

Mr Lopes said he aimed to cut interest rates without accelerating the devaluation of the Real.

But he warned that progress depended on rapid passage of government economic measures in Congress. Brazil currently has some of the highest real interest rates in the world, with the central bank's key rate set at 29 per cent per year.

'The objective is to allow the economy to return to growth'

Mr Lopes said Brazil now had "the potential to reduce interest rates. This will become reality if we advance in fiscal policy. The main objective is to allow the economy to return to growth while maintaining the great achievement of price stability."

He said yesterday's measures had now drawn a line under further exchange rate adjustments. "We are not interested in producing further devaluations which produce inflation and a decline in economic activity."

Instead, a decline in interest rates would set off a virtuous circle by reducing the cost of financing the public sector's R$300bn (US$250bn) debt, allowing for a further cut in rates and a recovery in economic activity.

Mr Lopes said the central bank would intervene in currency markets only when the Real reached the ceiling or hit the floor of the new band for three consecutive working days. Previously, the central bank intervened daily to defend the Real's parity. Now, he said "we will only defend the extremes of the band".

According to the central bank's new policy, the Real will be allowed to depreciate by a total 12-15 per cent this year, which would include yesterday's fall in value.

Under the previous exchange rate regime, the currency could only depreciate by an annual 7-8 per cent.

Mr Lopes said that, under the new mechanism, if the Real was relatively strong and traded close to the floor of its band, the central bank would allow it to devalue by 5.9 per cent from now until the end of the year. However, if the currency continued to trade closer to the weaker end of the band, the central bank would allow a further devaluation of only 3 per cent.

The new exchange rate policy would discourage "hot money" inflows of short-term capital, Mr Lopes said.

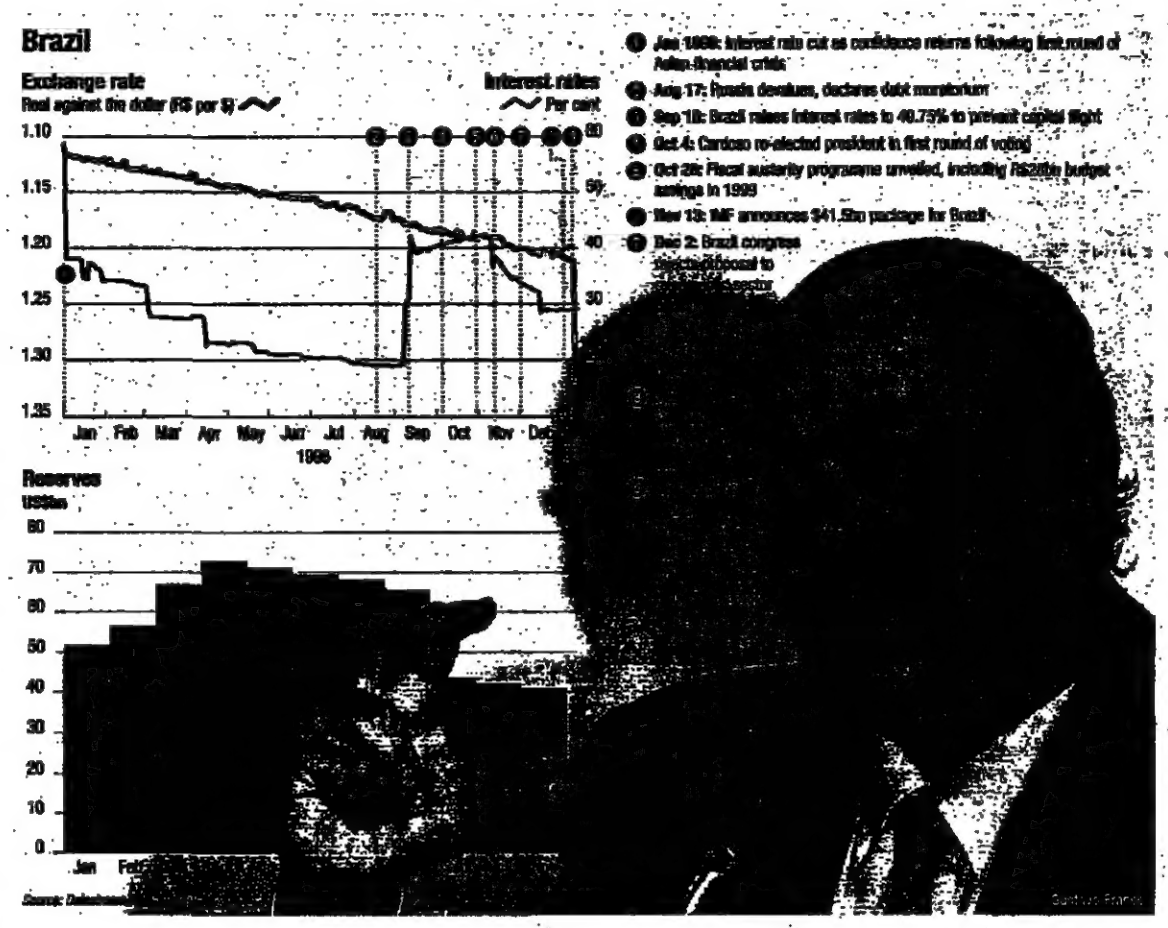
He admitted that the government was wrong to allow the entry of large quantities of hot money into the country last year.

Now, he said, "we do not want large amounts of speculative capital. We do not want a repeat of 1996, when a large amount of capital entered the country at the beginning of the year and left rapidly in recent days".

Instead, he said the new policies created "an environment that is not very propitious for speculative capital". On the contrary, the new rules should encourage the entry of more investment capital.

However, opposition to the government's policies would worsen the market perceptions and hence deepen the country's economic difficulties.

He said "continuity of the reform programme allows foreigners to improve their assessment of us [allowing a] fall in interest rates. But the [gains of devaluation] could be annulled by a deterioration in [market] assessment here or overseas."



TELECOMS

Operators face lower margins

By Alan Cane in London, Tom Burns in Madrid and Paul Betts in Milan

International telecoms operators are likely to be hit by Brazil's devaluation, which will affect both tariffs and margins in a market which has attracted massive investment in recent years.

Overseas operators active in the region include Telefónica of Spain, Telecom Italia and MCI WorldCom of the US, a partner in the wireline group Embratel.

Damon Guirdham, emerging markets specialist with brokers Morgan Stanley Dean Witter in London, says there is little positive for telecoms operators in devaluation. Most face heavy costs, usually denominated in foreign currencies, of building and upgrading networking infrastructures. They have limited potential to earn foreign currencies.

Telefónica, which almost doubled its Latin American investments last summer with a $5bn buying spree in Brazil, said yesterday its commitment to expand in the country remained unchanged.

This is despite an 8.5 per cent fall in its share price prompted by the crisis.

"We are sticking to a Brazil business plan which involves investments in fixed-line and cellular telephony of $3.8bn this year by our companies in Brazil," a spokesman said. "We are long-term investors in Brazil, not speculators."

Others are less sanguine. "Time will tell but the impression is that Telefónica has paid a high price for being in the wrong place," said, a senior trader at a Madrid securities firm.

Telecom Italia, the privatised telecommunications group, has also built up a significant Brazilian presence by investing some L3,000bn ($1.8bn) in the recent Brazilian telecommunications privatisation, winning three bids. But its South American investments are one problem out of many.

MCI WorldCom, one of the world's fastest growing operators, said yesterday that it remained confident of the long-term growth prospects in the region and did not believe Brazil's problems would have a material effect on the company.

MOTOR INDUSTRY

Promising image will be tarnished

By Haig Simonian, Motor Industry Correspondent

Brazil's decision to devalue the Real will heighten the uncertainty facing the country's vehicle makers, which have already been battered by a 21 per cent fall in sales to 1.53m units last year, raising the risk of severe overcapacity.

The latest upset will further tarnish Brazil's image of the mid-1990s as one of the most promising markets for the motor industry on the back of economic liberalisation and soaring demand.

The impact will be felt hardest by Volkswagen, Fiat, General Motors and Ford, the country's "Big Four" carmakers which together account for 90 per cent of sales.

However, it will also severely affect newer arrivals, such as Renault and DaimlerChrysler, which have invested heavily in new plants in recent years.

Fiat, which has increasingly rivalled VW for market leadership, had already cut its Brazilian output from 2,300 units a day to 1,500 to prevent unsold stocks building up. About 10,000 of the 27,000 employees of Fiat's Brazilian subsidiary had been shed in response to the crisis.

Ford laid off 2,800 workers from its São Bernardo factory in Brazil's industrial heartland just before Christmas. Workers have since occupied the factory floor. Production at other plants has been affected.

Other manufactures have also cut production sharply, although most, like Fiat, have tried to avoid large redundancies by natural wastage and short-time working in the hope of an upturn in demand.

With analysts predicting that sales this year would be static at best – even before yesterday's events – the likelihood of an improvement seems more remote than ever.

The commercial vehicles sector will be similarly affected. Leading manufacturers, such as Mercedes-Benz, Volvo and Scania all manufacture vehicles in Brazil and had already turned to production cuts and lay offs to tailor supply to the much lower level of demand.

Additional reporting by Paul Betts in Milan

LATIN AMERICA

Argentina to defend dollar peg

By Ken Warn in Buenos Aires and Henry Tricks in Mexico City

Argentine officials yesterday vowed to defend the currency's one-for-one peg to the US dollar, the linchpin of the country's economic policy, as Latin American markets tumbled in the wake of the Brazilian devaluation.

Across the region, governments struggled to differentiate their economies from that of Brazil.

Argentina's Merval share index was down 6.85 per cent in afternoon trading at 369.6, while its Brady bonds also registered sharp falls. In Mexico, the free-floating peso tumbled against the dollar, triggering an automatic $200m hard currency sale by the central bank that helped check its fall. Interest rates rose sharply and the stock market fell sharply.

"The one-for-one parity is not a government matter but a demand and requirement of the people," Rogelio Frigerio, Argentina's economic planning secretary, said. "We will not change this policy for anything in the world."

Nonetheless, the Brazilian policy shift caused deep dismay among policymakers. Many senior Argentine officials were yesterday returning from Washington, where they had made repeated attempts to talk up the Brazilian authorities' chances of avoiding a devaluation.

Many analysts believe Argentina's economic fundamentals are sufficiently strong to allow it to maintain the dollar peg and ultimately to differentiate itself from Brazil in the minds of investors. While Brazil has seen a haemorrhaging of foreign reserves recently, Argentina this week announced that net international reserves had reached a record $27.7bn.

"Argentina is in for a rough ride in the day and weeks ahead," said Walter Molano at BCP Securities. "The Brazilian move will raise the cost of capital and bring more downsizing and more pain for Argentina – *but it will not be anything* near the pain that's going to be felt in Brazil."

People were less concerned about the safety of their deposits because of the transfer of much of the Argentine bank sector to international banks, he said.

The most immediate pain could be felt in the corporate sector. "While the government may be able to continue its borrowing, companies will suffer on this score and we could see some corporate defaults," said Christopher Ecclestone, chief analyst at Buenos Aires Trust.

José Angel Gurria, the Mexican finance minister, said he expected market turbulence to continue in coming weeks, but he said Mexico's narrow fiscal deficit set it apart from Brazil.

Mexico had already "taken decisions regarding its economic policy, its 1999 budget. We are not half-way through, we are not in the middle of a legislative process in which we have uncertainty, as they have in Brazil," Mr Gurria said. Economists said the impact on Mexico would be felt chiefly through currency volatility, likely to complicate central bank efforts to rein in inflation.

They also said growth was at risk throughout the region.

GLOBAL EMERGING MARKETS

Reaction may be short-lived

By Alan Beattie in London

The crisis in Brazil had knock-on effects throughout emerging markets yesterday, but there were signs some of the market reaction would only be short-lived.

The emerging market bond index (EMBI), a measure of the risk attached to investing in emerging markets, showed a rapid rise as investors sought to shift capital towards safe havens.

From a recent level of around 1,100, suggesting investors were demanding an extra 11-percentage point return to hold emerging market debt over US Treasuries, the EMBI shot up to above 1,400 yesterday. However, that was lower than levels above 1,800 the Russian crisis provoked.

Other reactions included an increase in activity in the forward market in Hong Kong dollars. The body blow dealt to the Brazilian crawling peg has increased fears that Chinese capital controls and the Hong Kong dollar peg may be the next to go.

Traders were reporting a rapid increase in volume in the Hong Kong dollar forward market, the main method of speculating that the peg will give way.

Currencies in east European emerging markets also took a knock. The Polish zloty was fixed at 4.5 per cent against the mid-point of its target currency basket yesterday, as against the 7.7 per cent fix on Tuesday.

The risk that emerging market countries will be forced to jack up interest rates to defend their currencies weighed heavily on their stock markets. South African stocks fell by around 4 per cent yesterday, and Hong Kong shares in London dropped around 3 per cent by late afternoon in Europe.

But some market analysts said that, so far, the reaction in emerging markets, particularly in Asia, did not qualify as a crisis. "Key Asian currencies such as the Thai baht have only fallen a couple of per cent today," said Jonathan Chapman of Standard Chartered in London.

Mr Chapman said the chance of a full-blown speculative assault on all emerging markets was low. "With the hedge fund industry less adventurous and less leveraged at the moment than last year, now was not a bad time to pick for the Brazil devaluation," he said.

BANKING SHARE PRICES OF BANKS WITH BIG BRAZIL EXPOSURE SUFFER SHARP FALLS

Spanish groups take heavy hit

By George Graham in London, Tom Burns in Madrid and Tony Barber in Frankfurt

European banks quickly felt the effects of yesterday's Brazilian crisis, as the share prices of institutions with heavy Latin American exposure tumbled.

Spanish banks have led the charge into Latin America, and Banco Bilbao Vizcaya and Banco Santander, the two big banking groups which have acquired units in Brazil, suffered yesterday.

BBV's share price closed 13.54 per cent down at €11.69 ($13.5) on Madrid's Bolsa, and the value of Santander's shares dropped by 12.81 per cent to €14.28.

BBV paid $450m last year for control of São Paulo-based Banco Excel Económico, one of Brazil's largest financial institutions, and Santander has spent some $330m since 1997 building up its Brazilian presence. Brazilian banking investments represent 2 per cent of BBV's total assets and 3 per cent of Santander's.

But both banks prudently withdrew competing bids in September for Brazil's Banco Minas Gerais and adopted, instead, a wait and see attitude over future investments in the area.

Carlos Pertejo, a Spanish banking analyst at J.P. Morgan in London, said yesterday he was now revising 1999 earnings per share forecasts at BBV from an increase of 18 per cent to one of 15 per cent, and at Santander from 17.5 per cent to 14 per cent.

In London, Lloyds TSB and HSBC Holdings have both expanded in Brazil. Lloyds saw its shares drop 43p to 821½p ($13.79). However, recent loan volumes at Losango, its Brazilian consumer finance subsidiary, are thought to have been low, while the bank's other emerging market exposure is in Brady bonds.

HSBC, whose shares fell 125p to 1,628p yesterday, took over the troubled Bamerindus, but only after central bank intervention which resulted in most of the loan book being stripped off. Other European groups such as Credit Suisse and ABN Amro have also expanded in Brazil through acquisitions.

Wholesale lending to the region could also leave German banks heavily exposed. According to the Bank for International Settlements, German banks account for 12.3 per cent of foreign lending to Latin America, compared with 24.3 per cent for US banks and 9.6 per cent for Spanish banks.

Bundesbank data last year showed German banks had lent about DM70bn ($41.90bn) to Latin America, higher than the DM55bn they had lent to Russia before its effective debt default last August, but below their DM130bn of lending to Asian countries excluding Japan.

"The German banks get cover from state guarantees, but the risk that they'll have to make extra risk provisions has grown," one banker in Frankfurt said.

US banks have tended to be more exposed to securities and derivatives-trading portfolios, which are not reflected in the BIS lending statistics.

Within the US, Bank Boston and Citigroup, with established Brazilian banking affiliates, are the two groups thought to have the greatest exposure. Since Citigroup is larger than any European bank, its holdings in Brazil are more readily cushioned by its other earnings.

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Santer misjudges growing confidence of an institution that has 'come of age'

Neil Buckley sketches the making of a now much more assertive parliament that did not take kindly to the EU president's challenge to 'back us or sack us' over fraud

It may have been one of the biggest political own goals in the short history of the European Union.

When Jacques Santer, president of the European Commission – the officials who run the EU – called last month for the European parliament to back him or sack him over allegations of fraud and mismanagement by his bureaucracy, the plan was simple.

Parliament would hold a censure motion and vote against it. Although the 626 MEPs (Members of the European parliament) theoretically could sack Mr Santer and the 19 commissioners who with him head the bureaucracy, they would not. His team would emerge intact, even strengthened.

This week, however, parliament rewrote the script. Mr Santer has spent three days battling to save his own job and those of his colleagues, even if the attempts to topple him were running out of steam last night.

A lesson can be drawn. The parliament is chaotic, unpredictable, infuriating, sometimes juvenile. But it can no longer be trifled with. As one MEP remarked on the week's events, "It's a shambles, but it's history."

The parliament originated in 1951 as the Common Assembly of the European Coal and Steel Community, with 78 members nominated by the national parliaments of the six founding countries. As the Community has evolved into the EU, the assembly – renamed the European parliament in 1962 – has developed in tandem.

A big step forward came in 1979 when EU-wide elections were held involving 190m people. But its powers have so far lagged behind its ambitions to be the democratic check and balance on other members of the EU's law-making "triangle" – the Commission, which proposes legislation, and the Council of Ministers (the relevant cabinet ministers from the national governments), which long had a near-monopoly on amending and adopting legislation.

Parliament has always had important powers over the EU's budget (currently €80bn or $95bn),including the right to modify or reject it – and ensure the Commission administers it properly.

Its supervisory powers over the Commission include the right of a censure motion, and to confirm the appointment of the Commission president.

Parliament's legislative role, however, has evolved from the right merely to be consulted, to "co-operation" with EU ministers that allowed it to put forward amendments itself in some areas, and, since the 1992 Maastricht treaty, the right of "co-decision" in some fields.

"Co-decision" in effect makes it co-legislator with the council of ministers, able to veto laws if ministers do not take account of parliament's amendments.

The 1997 Amsterdam treaty, now being ratified by the 15 EU member states, gave parliament another important boost. Once in force, it will give MEPs the right to veto candidates for president of the Commission, rather than offering an opinion. It will also extend "co-decision" from 15 legislative areas to 38.

Parliament is already widening its horizons. As EU heads of government talk of the need to bring the Union closer to its citizens, it aspires to be a genuine "forum" reflecting the concerns of ordinary people.

With the launch of the single currency, the parliament wants to develop powers as a check on the European Central Bank. It already holds quarterly hearings with Wim Duisenberg, ECB governor, which MEPs hope could become the European equivalent of US congressional hearings with the Federal Reserve chairman.

Parliament's anti-fraud campaign in recent months has shown evidence of an increasingly self-confident body. Elections in June have helped embolden MEPs.

But parliament has huge weaknesses. It asked for, but did not get in the Amsterdam treaty, powers to sack individual commissioners, leaving it only with the "nuclear option" of a censure motion. It is hamstrung by having, for historical reasons, to hold 12 meetings a year in Strasbourg, France, requiring MEPs and officials to decamp in their thousands from Brussels. MEPs' lavish expenses and allowances have also exposed them to attack by national governments and undermined any attempt to take the moral high ground over fraud allegations.

And as this week has shown, important issues can become hopelessly wrapped up in party political manoeuvring and mud-slinging more reminiscent of student politics. All those weaknesses may have persuaded Mr Santer to underestimate the risks of his "back us or sack us" call last month.

But one commissioner said yesterday the Brussels bureaucracy already took parliament very seriously: "When I first came to the Commission, senior officials tended to regard parliament as little more than a nuisance. That has changed out of all recognition," he said. "Of course, people learn at different rates. Some are on a steep learning curve."

Despite the compromises and playground politics, Europe's parliament is likely to emerge from this week's confrontation with its position in the EU framework firmly asserted.

As Pat Cox, the European Liberal Democrat leader, insisted yesterday: "This house is entering its 21st year of service as a directly elected institution. This is a powerful way to mark our coming of age."

See editorial comment

The European Parliament

Legislative powers

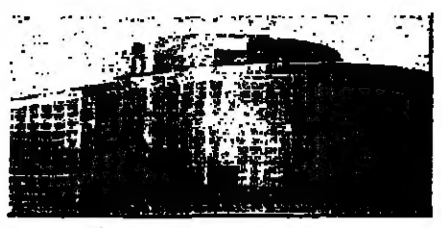
- Right to be consulted and deliver opinions on EU legislation
- 1987 Single European Act introduces "co-operation" procedure with EU ministers, allowing parliament to put forward amendments to laws on the single market
- 1991 Maastricht Treaty introduces "co-decision" procedure - in effect giving parliament role as co-legislator with EU ministers in 15 areas, extended to 38 areas by 1997 Amsterdam Treaty

Budget powers

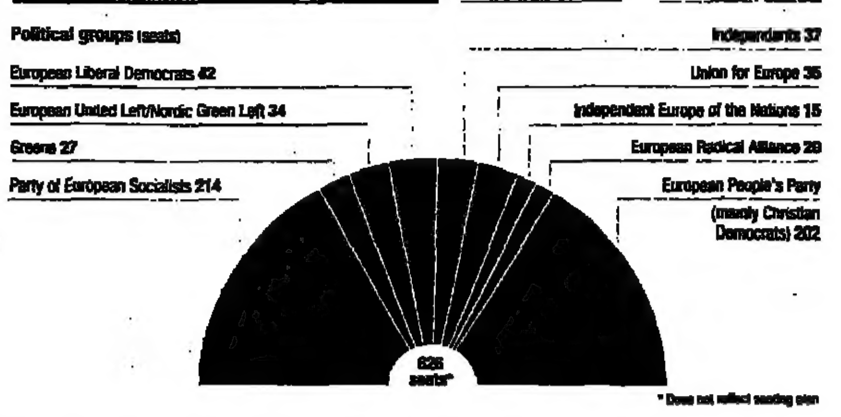
- Can amend the EU's draft budget
- Final say on "non-compulsory" EU spending
- Approves European Commission's management of the budget

Democratic supervision

- Right to approve appointment of Commission president; Amsterdam Treaty gives full right to veto candidate for president
- Can pass censure motion forcing all 20 commissioners to resign
- Right to ratify foreign treaties



Members	MEPs		MEPs
Austria	21	Italy	87
Belgium	25	Luxembourg	6
Denmark	16	Netherlands	31
Finland	16	Portugal	25
France	87	Spain	64
Germany	99	Sweden	22
Greece	25	UK	87
Ireland	15	Total	626



* Does not reflect seating plan

Fresh Kosovo crisis averted by soldiers' release

By Guy Dinmore in Belgrade

International monitors yesterday defused a fresh crisis in Kosovo by securing the release of eight Yugoslav soldiers held by ethnic Albanian rebels, but western diplomats feared the Serbian province was nonetheless heading back towards full scale war.

William Walker, the US ambassador heading the international verification mission, said the separatist Kosovo Liberation Army (KLA) had freed the eight men "as part of a fair and balanced deal".

He gave no details of the deal but diplomats, who asked not to be named, said that in exchange the Serbian government would next week release nine ethnic Albanians taken prisoner last month while crossing into Kosovo from Albania.

Serbian armoured units surrounding the area in northern Kosovo had threatened to use force if monitors of the Organisation for Security and Co-operation in Europe (OSCE) failed to free the hostages, who blundered into KLA lines in fog last Friday. Belgrade had insisted on their unconditional release and OSCE officials admitted privately they were sceptical the nine ethnic Albanians would be let go. A spokesman for the KLA said that promises made by the Serbian side through OSCE mediators had to be kept.

The former British and US army officers who negotiated the release with both sides also succeeded last month in mediating an end to serious clashes around the northern town of Podujevo.

Diplomats paid tribute to the OSCE mission, which has gone beyond its mandate of monitoring a ceasefire and partial withdrawal of government forces. But they said the OSCE could not be expected to prevent war in the absence of a long-term political settlement.

Months of shuffle diplomacy by US envoy Chris Hill have resulted in little progress. Neither side appears willing to accept a compromise that would give Kosovo and its ethnic Albanian majority substantial autonomy within the Yugoslav federation that now comprises just Serbia and Montenegro. Two ethnic Albanians were killed by unknown men in separate incidents yesterday. The body of a third man was found near the village of Likovac, where Mr Walker and other senior diplomats held hours of talks with KLA representatives.

Over 100 people have died in the conflict since Slobodan Milosevic, president of federal Yugoslavia, agreed three months ago to a partial withdrawal of his forces.

Italy concerned over euro charges

By David Lane in Rome

Italy's treasury has expressed concern at the "high charges" Italian banks are demanding to exchange euro-zone currencies, and has appealed to them to bring their pricing policies into line with the spirit of the single currency project.

A treasury statement said the government shared public concern over the cost of exchanging euro-zone currencies in Italy. These costs were supposed to fall with the launch of the euro, due to the elimination of exchange risk between currencies that are locked together at fixed rates.

But far from paying less for foreign exchange operations at their bank branches since January 4, when the lira was merged into the euro, many Italians appear to face higher charges than before.

In fact, in some cases buying or selling banknotes of non-euro-zone currencies such as the dollar or pound sterling could even cost less than exchanging lire for D-Marks or French francs or other denominations within the euro-zone.

Banca di Roma has a fixed commission of L5,000 ($3) plus 3 per cent of countervalue for operations in euro-zone currencies. It charges a fixed commission of L5,000 when currencies outside the euro-zone are involved. Whether it makes as much as 3 per cent on the buy and sell spread for currencies outside the euro-zone is not clear. San Paolo IMI charges L5,000 plus 1.5 per cent for euro-zone currencies, and a commission of L6,000 for operations involving currencies outside the euro-zone.

Associazione Bancaria Italiana (ABI), the Italian banking association, said accusations that its members were profiting unfairly from operations involving euro-zone currencies were baffling. It noted the euro's arrival had not eliminated the costs of changing banknotes, staff time, banknote transport between branches, and insurance.

The association argues that changing banknotes is a service and in a market economy banks may charge what the market will allow.

● Greece's central bank yesterday cut 25 basis points off its main intervention rate in response to a sharp fall in inflation, writes Kerin Hope in Athens. Analysts said the cut in the Bank of Greece 14-day deposit rate from 12.25 per cent to 12.0 per cent indicated a swifter convergence of Greek interest rates with the euro-zone countries.

Inflation slowed to 3.9 per cent in December, boosting Greece's chances of joining the euro in January 2001, the ambitious goal which the government has set for itself.

Bonn urges integration of foreigners

By Ralph Atkins in Bonn and Frederick Stüdemann in Berlin

Germany's Social Democratic-led government yesterday appealed for closer integration of 7.3m foreign residents as it published plans for overhauling citizenship laws and sanctioning dual nationality.

Otto Schily, interior minister, said the draft legislation, expected to come into effect in the autumn, would "contribute to domestic peace".

He attacked as "irresponsible" some opponents of the bill – including those in the mainstream rightwing opposition parties – who had warned that criminals could become German citizens. Long-time resident foreigners had a better crime record than comparable groups of Germans, Mr Schily said.

"You can sleep well," he said. "These people overwhelmingly abide by the laws here. They support our work. We need them. They pay tax and social security contributions. They create jobs – hundreds of thousands."

The number of foreigners living in Germany surged after the war as so-called *Gastarbeiter* filled gaps in the labour market. Almost half of today's resident foreigners have lived more than 10 years in Germany.

The bill aims to make citizenship easier to obtain for these people. By tolerating dual nationality, it would no longer force applicants to surrender ties to another country.

Under-18s would be able to claim German nationality after five years' residency – previously eight – as long as they do not have a criminal record. Adults would be eligible after eight years – compared with 15 under previous law – when they declare in writing their support for Germany's constitution. They must also be able to support themselves and their families without social benefits.

Children born in Germany of foreign parents would be entitled to German nationality if one parent was born in the country or had arrived aged under 14.

Germany's new rules could prove less onerous than, for instance, US requirements, which include an oath of allegiance to the US constitution, knowledge of US history, command of the English language as well as a "good moral character".

Mr Schily's draft legislation is opposed by the Christian Democratic Union, which objects to dual nationality and is expected to start collecting signatures in a protest action in the run-up to state elections in Hesse on February 7.

The bill was due to be discussed by senior Social Democrat and Green party leaders in Berlin last night at a meeting called to resolve policy differences within the governing coalition and map out priorities for 1999.

The main subject, however, was nuclear energy policy, which has exposed deep splits in Chancellor Gerhard Schröder's administration. Ahead of the meeting, the economics ministry and the Green-controlled environment department reached a deal on amending the country's atomic law ahead of an eventual closure of Germany's 19 atomic power stations.

● German inflation dropped further in December, according to official figures yesterday. The annual rate of 0.5 per cent was the lowest since figures for reunited Germany were first compiled in 1991.

France extends 35-hour week to EdF

By Robert Graham in Paris

The introduction of the 35-hour week has been extended to France's state sector in an agreement between management and unions at EdF, the electricity monopoly.

The controversial deal commits EdF to reverse the gradual erosion of its workforce begun 15 years ago and create up to 5,000 net new jobs over the coming three years.

EdF is already seen as having a higher personnel cost-basis than most of its competitors in the European Union. The agreement also comes barely more than a month before the European electricity market is to be partially liberalised.

Another controversial aspect of the accord is the extension of government subsidies, equivalent to FFr5,000 ($880) for each new person hired. Although this is less than half the subsidy available to private sector companies implementing the 35-hour week, some commentators questioned the government providing financial assistance in this way to a state company that already employs 139,000 people.

Dominique Strauss-Kahn, finance minister, yesterday called the accord "exemplary". He said it would help the competitiveness of both EdF and Gaz de France, its sister gas group. An EdF statement also underlined that the agreement involved greater work flexibility, salary moderation, longer opening hours to the public and an early retirement scheme for up to 15,000 people over the next three years. When proposals for the 35-hour week were first unveiled in October 1997 as a means of creating jobs, the state sector was specifically excluded. Even now, 40 state employers are excluded.

The situation at EdF was further complicated by a successful union challenge last year to a 1997 scheme working towards a 32-hour week with more flexible employment. Since this scheme had been adopted by more than 10 per cent of the workforce, the management was obliged to come up with an alternative and the new 35-hour week legislation provided the framework.

However, the unions, essentially hostile to the 35-hour week for fear of losing out on pay, only accepted the EdF deal once it was clear the company was prepared to reverse the decline of the workforce.

At present, some 1,500 agreements introducing the 35-hour week have been signed in the private sector; but no more than 10,000 new jobs have been created. This week, the government hinted it would accelerate the introduction of the crucial second stage of the legislation, originally scheduled for the end of this year.

NEWS DIGEST

TRANSATLANTIC DIALOGUE URGED

Bonn, Paris warn against excessive rise in euro

Oskar Lafontaine and Dominique Strauss-Kahn, the German and French finance ministers, yesterday warned against an "excessive appreciation" of the euro and called for a common position on exchange rates by members of the newly launched currency zone.

In addition, the finance ministers called in a jointly authored newspaper article for a "new transatlantic dialogue" to ensure the world's two main currencies – the euro and dollar – did not become a "source of instability".

The decision to co-pen an article, published in Die Zeit in Germany and Le Monde in France, highlighted the changed political landscape in Europe since the euro's launch on January 1. Mr Lafontaine and Mr Strauss-Kahn have consistently driven for greater economic co-operation between the 11 members of the euro-zone although Mr Lafontaine's ideas on currency management have met a cool response in Washington.

In the article, the ministers said a "coherent" position on exchange rates, when necessary with agreed guidelines, was of "particular" importance. "Market participants should know that we would not welcome an excessive appreciation of the euro."

The ministers backed a further strengthening of the external representation of the euro currency, particularly in international institutions, as well as increased co-operation with the European Central Bank. Mr Lafontaine and Mr Strauss-Kahn also called for currency systems with developing countries in Asia, Latin America and central and east Europe, which offered a balance of "flexibility and discipline". **Ralph Atkins, Bonn**

MANOEUVRING IN MOSCOW

Yeltsin impeachment vote soon

Gennady Zyuganov, Russian Communist party leader, said yesterday a vote to impeach President Boris Yeltsin in the Duma, the lower house of parliament, could come as early as February.

Mr Zyuganov said that a Duma committee that was considering five impeachment charges against President Yeltsin was working well and would present its findings soon.

However, under the 1993 constitution drawn up by Mr Yeltsin, it is all but impossible to remove the president from office and few politicians attach great significance to the proceedings.

Mr Zyuganov said he believed that one of the five charges – an accusation that Mr Yeltsin had illegally launched the catastrophic 1994-96 war against the breakaway Chechnya region – would garner the necessary 300 votes to pass in the 450-seat chamber.

Liberals, as well as Communists and nationalists, support the Chechnya charges. Four other charges against Mr Yeltsin, ranging from bringing about the break-up of the Soviet Union to "genocide" against the Russian people, are supported only by Communists and their allies, who are short of a majority. **Moscow, Reuters**

IRAN 'MILITARY AID'

US puts sanctions on Russians

The US yesterday announced economic sanctions against three Russian scientific institutes alleged to have helped in the development of Iran's military programme.

Sandy Berger, national security adviser, said the US was banning imports to and exports from Nikiet, the Mendeleyev University of Chemical Technology and the Moscow Aviation Institute for "providing sensitive missile or nuclear assistance to Iran".

The sanctions follow similar US action against seven other Russian institutes last July. Mr Berger said that since then progress on preventing military co-operation between Russian institutes and Iranhad "come to a halt".

Yevgeny Primakov, Russian prime minister, said the decision risked damaging US-Russian relations, and Igor Sergeyev, defence minister, said that the action was politically motivated and that the institutes did not have the resources to undertaken the activities alleged by Washington.

The US previously expressed concern at the end of November at a deal under which Russia would complete the construction of an Iranian nuclear reactor and bid for three others. **Andrew Jack, Moscow**

STRAINS IN COALITION

Two Swiss ministers resign

Switzerland's two longest-serving cabinet ministers have announced their resignations, underlining the growing strains within Switzerland's 40-year-old coalition.

Flavio Cotti, 59, foreign minister, and Arnold Koller, 65, justice minister, will step down at the end of April. Both are members of the centre-right Christian Democrat party (CDC) and joined the seven-strong Swiss government in 1986. Under the so-called "Magic Formula", Switzerland's three biggest political parties always supply two ministers each to the government and the Swiss People's party (SPP) supplies one. However, support for the SPP, under the leadership of Christoph Blocher, a successful businessman and opponent of Swiss membership of the European Union, has been increasing. It has been pressing for an extra seat in the Swiss government that could lead to a breakdown of the Magic Formula, which has dictated the membership of the Swiss government since 1959. The CDC has been losing support to Mr Blocher's party and yesterday's move was seen as a move to rejuvenate the party ahead of the country's national election in October 1999.

Klaus Stöhlker, a public affairs commentator, said yesterday that the CDC was "in serious trouble" and 1999 could see the collapse of the Magic Formula. However, Mr Blocher's party is also deeply divided with Adolf Ogi, the SPP's only member of the government, becoming increasingly isolated from Mr Blocher's branch of the SPP. **William Hall, Zurich**

SWEDISH MANUFACTURING

Bid to stop company exodus

The Swedish government is planning to convene a special meeting with union leaders and industry executives to discuss ways of encouraging leading companies to remain in Sweden, rather than move headquarters or manufacturing overseas.

The move follows warnings from LO, Sweden's main blue-collar union organisation, that an exodus of leading companies was undermining jobs in manufacturing industry. Such concerns have intensified on market expectations of a possible merger or strategic alliance involving Volvo, the Swedish automotive group, with either Ford of the US or Italy's Fiat.

Bjorn Rosengren, trade and industry minister, said yesterday that he would invite employers and unions to a meeting later this week. Nevertheless, he claimed Volvo would stay in Sweden regardless of any possible changes in ownership, and pledged action to try to stem the corporate exodus from the country. "I expect that Volvo will not leave Sweden... other owners can be complementary but Volvo's departure is not on the agenda," he said. Volvo declined to comment. **Tim Burt, Stockholm**

MALAYSIA TRIAL PROSECUTION CASE NOW EASIER, SAYS DEFENCE

Charges against Anwar amended

By Sheila McNulty in Kuala Lumpur

The judge presiding over the trial of Anwar Ibrahim, Malaysia's sacked deputy prime minister, yesterday accepted prosecution amendments to four abuse-of-power charges that appeared to defence lawyers to make it easier to find him guilty.

They said the changes seemed to enable the prosecution to prove its case without establishing that Mr Anwar performed the sexual misdeeds it is accusing him of trying to cover up.

Defence lawyers also protested that the amendments tightened the breadth of the charges, after the prosecution had spent months introducing "sordid testimony" about Mr Anwar, who, they said, had also endured being jailed and beaten by police.

Raja Aziz Addruse, Mr Anwar's lead counsel, noted that the prosecution had throughout accused Mr Anwar of sexual misconduct and sodomy, even introducing a mattress as evidence. "Having smeared his reputation, it is unjust and highly prejudicial to the accused if the charges were allowed to be amended as proposed," Mr Raja Aziz said.

Abdul Gani Patail, chief prosecutor, said the crime of abuse of power, not sexual misconduct, behind the four charges was unchanged. High Court Judge Augustine Paul agreed: "I'm of the view that it's no real substantive change. The accused isn't prejudiced by these amended charges."

Mr Anwar told reporters in court: "They already stripped me naked. Now they are amending the charges". Wan Azizah Wan Ismail, his wife, declared: "At this late stage, the truth is crystal clear to the whole world. The prosecution set out to prove to the world that Anwar Ibrahim is a sodomist and guilty of sexual misconduct.

"These allegations collapsed. Anwar will be vindicated with the grace of God. The prosecution's retreat into legal technicality, of their right to amend, cannot mask the truth."

The four charges are the first of 10 levelled against Mr Anwar to be brought to court. They alleged Mr Anwar ordered police officers to obtain retractions from two people who accused him of sodomy and sexual misconduct.

The amendments now speak of "allegations" of sexual misconduct and state Mr Anwar attempted to protect himself from "embarrassment" instead of "criminal action or proceedings".

Mr Anwar denies all charges as part of a plot to punish him for becoming a threat to prime minister Mahathir Mohamad's rule.

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Wan Azizah Wan Ismail, wife of Anwar Ibrahim, joins supporters outside the court yesterday Reuters

Speculation forces up HK interest rates

By Louise Lucas in Hong Kong

Hong Kong interbank interest rates rose sharply yesterday as speculative traders, including hedge funds, turned their attentions back to the territory, traders said.

The rise in interbank rates (the level at which banks borrow from each other) came as share prices dived. The benchmark Hang Seng index fell 4.09 per cent to 10,273.77. Redchips, or China-backed companies, fared far worse following revelations of higher than expected debt levels at companies under the Guangdong Enterprises (GDE) group.

Hedge funds bore the brunt of the blame for the attacks on Hong Kong in August.

Speculators swooped on the Hong Kong dollar, linked to the US dollar at a rate of US$1: HK$7.8 via a currency board, which backs up every Hong Kong dollar with its equivalent in US dollars. Under the currency board mechanism, interest rates rise when Hong Kong dollars are sold down.

Share buying by the Hong Kong government helped put the hedge funds in retreat but traders spotted signs of a return yesterday with "unusual" activity taking place overnight in London and New York. These transactions, made outside the Asian time zone, suggested they were carried out for trading purposes rather than genuine hedging, traders said.

Yesterday the benchmark three-month interest rate opened almost 1 per cent higher on Tuesday's close of around 5.6 per cent, and the six-month interbank interest rate hit a high of 7%, up more than 1.5 per cent in four trading days.

Other players were also pushing the interest rates up. Corporate borrowers and banks, believing rates have hit a bottom, are seeking to lock in interest rates at these levels.

Andrew Fung, treasurer at Commonwealth Bank of Australia, said there was a combination of players taking advantage of low interest rates. "Short selling the Hong Kong dollar at 5.5 per cent is pretty cheap," he said. "That makes it very tempting for traders to take a view and try their luck in the Hong Kong dollar."

Short sellers sell currency they do not own, in the expectation they can buy it back at a cheaper price. Those short selling currencies pay an interest-rate differential which is effectively the borrowing cost.

The Hong Kong Monetary Authority, the territory's *de facto* central bank which fended off previous attacks, said curbs and other measures put in place last year would strengthen the currency board system and make it less vulnerable to manipulation. However, officials are remaining on alert.

On Tuesday, GDE Group told creditors its debts stood at US$2.9bn at the end of last year and was unable to meet all its repayments. The share price of GDE unit Guangnan Holdings fell 52.8 per cent to HK$0.59 yesterday; while the overall redchip index shed 12.5 per cent.

Sakakibara caught in a currency bind

By Gillian Tett in Tokyo

For the past year, a popular guessing game among financial bureaucrats has been how long Eisuke Sakakibara could survive in his post as Japan's vice-finance minister.

This week the speculation gathered pace. For just a week after Mr Sakakibara warned the dollar should weaken, the government intervened on Tuesday to halt the yen's rise. And as the markets digest this apparent policy flip-flop, Mr Sakakibara's words have attracted some strong, behind-the-scenes criticism from some of his fellow bureaucrats.

"What Sakakibara has said was not helpful for the Japanese economy," mutters one senior official, who, like many, blames the yen's rise on Mr Sakakibara's comments.

Such scapegoating may not be entirely fair, given that the yen was surging even before Mr Sakakibara uttered the offending comment. And in the conspiracy-loving atmosphere of Tokyo, some observers doubt whether Mr Sakakibara was acting alone.

After all, he has long been used by the government as a useful channel to express controversial views. His recent comments might, the argument goes, may have been designed to wrongfoot the markets and appease US trade complaints.

But even if Mr Sakakibara was attempting to outmanoeuvre traders, there is little evidence that the government as a whole is now nursing a secret "master plan". The more likely explanation for this week's events is that subtle splits are emerging within the government machinery over the direction of economy policy.

Mr Sakakibara, for example, has long insisted that Japan's interests are not served by a weak yen. This partly reflects national pride: the Ministry's International Finance Bureau, which Mr Sakakibara heads, has a mandate to promote the yen as an international currency.

However, he is also sensitive to US trade tensions, partly because of his close links with some US officials such as Larry Summers, US deputy Treasury secretary.

And he supports the argument advanced by some economists, such as Richard Koo of Nomura Securities, that a stronger yen can help Japan by shrinking the banks' overseas assets, and thus improving their capital adequacy ratios.

However, most senior Bank of Japan officials take a different stance. For, although Masaru Hayami, the bank's governor, dislikes an excessively weak yen, most other officials firmly believe that Japan's interests would be best served by letting the yen slowly weaken, even below the Y147 level reached last year.

One reason is that Japan's banks' overseas assets are already declining as a proportion of their overall operations. Another is that the bank remains deeply alarmed about the economy.

Such arguments have had limited impact to date, since the ministry, rather than the bank, decides exchange rate policy. But Mr Sakakibara has opponents within the ministry as well. And last week's yen surge also deeply alarmed some politicians. Consqequently, though the ministry still shows little desire to let the yen drop back to Y140 again, it appears to determined to keep the yen below Y110 for the moment – not least because it can ill afford public criticism at present.

This is likely to mean that a level of Y120 to Y110 will be targeted for the moment. But another, potentially more crucial, battle is looming. For the ministry is attempting to bully the bank into purchasing more Japanese government bonds to stop long term interest rates surging further. Indeed, some bureaucrats and politicians argue that the yen's strength should create the perfect conditions for this potentially inflationary step.

But the bank, which prides itself on central banking orthodoxy, is opposed to this. Indeed, some officials are so horrified that they have threatened to "blow the whistle" on Japan's spiralling debt problems in retaliation. And though there is little sign the bank will take this radical step soon, it suggests that the policy tussle could become far more bitter soon if the economy ails irrespective of any comments from Mr Sakakibara.

Obuchi set to appoint Liberals

By Michiyo Nakamoto in Tokyo

Keizo Obuchi, the Japanese prime minister, is set to reshuffle his cabinet today after the ruling Liberal Democratic party and the Liberal party resolved their differences at the last minute and paved the way for a coalition government.

The cabinet reshuffle comes after nearly two months of wrangling over the terms of the coalition agreed between Mr Obuchi and Ichiro Ozawa, leader of the Liberal party, nearly two months ago. One of the points at issue was how many members of the Liberal party would join the cabinet. But it was agreed last night that Takeshi Noda, Liberal party secretary general, would become home affairs minister.

Mr Obuchi welcomed the deal, which was struck immediately after his return to Tokyo from a week-long tour of Europe. "I am very pleased. By forming a coalition, we would like to fulfill the responsibilities given to both parties," he said.

Mr Ozawa, who broke from the LDP five years ago, was expected to decline Mr Obuchi's invitation to join the cabinet himself.

The two parties reached a compromise on most issues dividing them but left unresolved some of the more contentious points related to Japan's defence and role in UN peacekeeping forces.

In particular, agreement was not reached on whether or not Japan's Self-Defence Forces will be allowed to provide logistical support for US troops in emergencies in "areas surrounding Japan".

The coalition will make it easier for the LDP, which does not have a majority in the upper house of the Diet, to push legislation through. Businesses have welcomed the coalition government.

However, there was some concern about Mr Ozawa's preoccupation with defence and administrative reform.

"In terms of economic policy, this is not necessarily good news," said John Neuffer, political analyst at Mitsui Marine Research Institute. In the past two months, as the LDP and Liberal party struggled to overcome their policy differences, the political debate has been focused on defence issues and administrative reform rather than the economy, he said.

Delhi approves buy-backs to boost revenues

By Mark Nicholson in New Delhi

The Indian government has approved a series of share "buy-backs" and cross-share purchases by six large state-owned companies in the attempt to attain a targeted Rs50bn ($1.2bn) from "disinvestment" (privatisation) receipts before the fiscal year ends in March.

The cabinet, which is under increasing pressure to balance its books, last night approved the sale of up to 12.5 per cent of the current government holding in ONGC, the state oil producer, and up to 10 per cent in both IOC and GAIL, respectively state-owned refining and gas companies. The cabinet also approved sales of equity in Nalco, the aluminium producer, and up to 5 per cent of the state's holding in MTNL and VSNL, the two government telephone companies.

Government officials said the sales could either be through buy-backs of the companies' own shares – fresh rules for which were recently put forward by the government led by the Bharatiya Janata party – or direct purchases of the government's holding in each group by another state owned company.

The proposals for buy-backs come as the BJP-led government faces a tough fiscal squeeze with just over two months before the close of the financial year. Yashwant Sinha, finance minister, recently conceded that he was unlikely to meet his fiscal deficit target for this year of 5.6 per cent of GDP, partly because of poorer than expected indirect tax receipts.

In his June budget, Mr Sinha said he expected to raise Rs50bn through international and domestic equity offerings in four big state groups, including both VSNL and GAIL. However, with little international appetite for such sales and flat domestic markets most of last year, the government has to date earned just Rs2.25bn, from a domestic offering by Concor, a state rail freight company. VSNL has just begun marketing a Global Depository Receipt offering to investors, while GAIL and IOC are also set to go to market with issues.

Finance ministry officials claim that the proposed state company buy-backs, which they say could be completed in time for Mr Sinha to take credit for the receipts by his February 27 budget, will "supplement" revenues from the four equity offerings, which are to proceed concurrently. One official claimed the government could even exceed its Rs50bn target and garner around Rs80bn.

But bankers and some other economic observers have already expressed scepticism about the government's determination to reach its disinvestment target through such intra-governmental purchases, which some have called simply a "bookkeeping" measure to meet the fiscal deficit target.

P. Chidambaram, former finance minister, dubbed such moves "mistaken" at a weekend business conference. "You cannot force a company to buy back [its] shares because the government needs funds," he said.

Sinha: faces fiscal squeeze

Philippines' budget gap exceeds forecasts

By Tony Tassell in Manila

The Philippine government has posted a much higher than expected budget deficit for 1998, breaching a ceiling agreed with the International Monetary Fund.

After a sharp increase in spending late last year by the Philippine government to stimulate a subdued economy, the budget deficit widened to 52.7bn pesos ($1.38bn) for 1998, overshooting the 49bn pesos target agreed with the IMF.

The deficit was much higher than even forecast late last year when government officials indicated it was likely to come in at around 40bn pesos.

No official growth figures have been released for 1998 but the final deficit would have been equivalent to about 2 per cent of GDP assuming 0.2 per cent expansion in the economy, according to Joey Cuyegkeng, economist with ING Barings.

Mr Cuyegkeng added the higher than expected deficit would create uncertainty about the fiscal discipline of the government.

Edgardo Espiritu, the finance secretary, said, however, the budget deficit overshoot beyond the IMF ceiling would not affect further disbursements of the institution's $1.4bn standby credit facility to the Philippines

He said that the deficit rose beyond the target because of an acceleration of accounts payable as the government carried out "pump priming" of the economy.

"We're not violating the programme," he said. Mr Espiritu also said the Philippine government had just signed a letter of intent on financial policies with the IMF although details of this were not yet available.

Earlier the Philippines and the IMF agreed a 68.4bn pesos budget deficit for 1999 to allow for further pump-priming an economy which has proved surprisingly resilient but not immune to the Asian economic crisis. This would be equivalent to 2.2 per cent of GDP assuming 2.5 per cent economic growth in 1999, according to Mr Cuyegkeng.

To fund part of the deficit, the Philippine government has embarked an international fund-raising exercise. Last week it raised $1bn through a heavily oversubscribed issue of 10-year and 20-year bonds.

It is also planning to issue $500m through the issue of euro-denominated bonds in early February and a further $235m by selling off a 10 per cent stake in Manila Electricity in a convertible bond issue. But it has dropped plans for a further $500m in dollar-denominated bonds.

Senators restore calm in Clinton proceedings

By Mark Suzman

As the US Senate sits down later today to hear the opening arguments in President Bill Clinton's impeachment trial, only one thing is certain: they will begin on a very different note to the contentious, bad-tempered hearings held last month by the House of Representatives.

Part of the reason is simply structural. There is limited scope for misbehaviour. William Rehnquist, the no-nonsense chief justice of the Supreme Court, will preside over proceedings and senators are required by the constitution to stay silent throughout.

But the change in atmosphere will also be due to the different nature of the Senate compared with its larger and more raucous junior counterpart.

"The House of Representatives was intended to be an undisciplined reflection of public passions," observed Bob Torricelli, a New Jersey Democrat who himself only moved from the House to the Senate in 1996. "It has certainly fulfilled the Founding Fathers' expectations."

Mr Torricelli sought to contrast the divisive House impeachment hearings with last week's agreement by all 100 senators on a compromise deal over the structure and format of the trial.

But his comments also reflect most senators' firm belief that they are part of the world's greatest deliberative body. Robert Byrd, the West Virginia Democrat informally regarded as its elder statesman, likes to describe the Senate as "the anchor of the Republic, the morning and evening star in the American constitutional constellation".

Such sentiments are intended to reinforce the image of a grave and sober body of thoughtful men and women who are more reflective and less prone to popular pressures.

Elected to six-year terms, in contrast to House members' two years, senators are in theory able to take a longer view on matters of state and prefer to seek consensus on weighty issues. That is why the constitution gave the House the power to impeach a president but assigns the Senate the more serious duty of convicting him.

Providing further impetus for bipartisan co-operation is the fact that the body's procedural rules give a single senator the power to hold up legislation through a filibuster unless at least 60 of his counterparts agree to force a vote on the matter.

In addition, the longer terms tend to breed more of an atmosphere of collegiality. Many senators from different sides of the aisle have become personal friends, and nearly all share Mr Torricelli's disdain for the House.

"There is an institutional rivalry between the two houses that is really quite deep and cuts across party lines," observes Stephen Hess, a political analyst at the Brookings Institution, a Washington think-tank. "In this case they really want to avoid the errors the House made in handling the [Lewinsky] scandal."

It was after Mr Byrd and other senators invoked those traditions in a passionate closed-door meeting that senators were able to draw back at the last minute from a potentially damaging Split.

With Republicans enjoying a 55-45 majority, they would need support from at least 12 Democrats to reach the necessary two-thirds majority – a highly unlikely outcome. But it also means Democrats need support from at least six Republicans to achieve their goal of blocking witnesses and ending the proceedings.

If both those outcomes prove elusive, the jurors may be forced to reflect on the slightly less flattering sentiments of Barry Goldwater, the former Arizona senator who was Republican nominee for president in 1964. "If this is the world's greatest deliberative body," he once commented, "I'd hate to see the world's worst."

President vows not to be distracted by his trial

By Mark Suzman in Washington

President Bill Clinton yesterday vowed he would not be distracted from pressing policy issues by the start of his impeachment trial today, and expressed confidence that the Senate would deal fairly with the charges.

Speaking about the Monica Lewinsky scandal for the first time since being impeached by the House last month, Mr Clinton said he believed his lawyers had prepared a persuasive defence against allegations he obstructed justice and committed perjury in covering up his affair with the former White House worker.

"The important thing for me is to spend as little time thinking about that as possible and as much time working on the issues we are here to discuss as possible," he said. "They have their job to do in the Senate and I have mine."

Mr Clinton also said he had no intention of addressing the matter during next week's State of the Union address, when he lays out his policy priorities for the year.

"I think the American people have heard about that quite extensively over the past year," he said. "My understanding is that I should do their business."

The president declined to comment directly on the charges, saying his views were expressed in a 130-page brief presented by his legal team to the Senate yesterday.

End in sight for 'cyber squatters'

A new system aimed at ending "cyber squatting" on internet address sites could be in place by the middle of this year, an official of the World Intellectual Property Organisation (Wipo) indicated yesterday, Reuters reports from Geneva.

Francis Gurry, the United Nations agency's legal counsel, told a news conference that proposals would be presented for approval in March to the California-based Icann (internet corporation for assigned names and numbers), the internet's manager for domain names, or addresses.

"The Icann board will decide on whether to adopt it. I imagine a decision will be rapid," said Mr Gurry.

The Geneva-based Wipo, closely involved in earlier efforts to resolve the problem, was asked last year to draft a plan for a legal framework to protect trademark names on the internet and ensure order in the registration process.

A Wipo official said 4.8m domain names were registered around the world, with 70,000 new ones added each week. At present any name not already in use can be registered on-line for about $100, and effectively cornered by "cyber squatters", individuals or organisations with no intention of actually using it.

These register a well-known name or close variant, then offer to sell the right to their site's use at a higher price to the owner of the name outside cyberspace, or to any other taker. The "squatters" can be pursued in national courts for copyright infringement, but this can be costly.

Under the new proposals, circulated on the internet over the past three weeks, an on-line dispute system would be set up under Icann. New names would only be accepted on condition of recognition of the dispute system, whose rulings would be obligatory.

Lawsuits filed over garment 'sweatshops'

By Richard Tomkins in New York

Lawyers in the US yesterday filed a series of lawsuits against clothing manufacturers and retailers, seeking more than $1bn in damages for alleged exploitation of workers in so-called sweatshops.

The litigation was filed on behalf of more than 50,000 present and former employees of factories on Saipan, part of the Northern Mariana Islands, a US Commonwealth territory in the south Pacific.

It alleges that young women from China, the Philippines, Bangladesh and Thailand were drawn to Saipan with promises of high pay and quality work but found themselves working long hours in unsanitary conditions and living in shanty-like housing compounds.

The litigation – the first of its kind to be brought against US clothing manufacturers and retailers – names 18 companies including Wal-Mart Stores, Sears Roebuck, May Department Stores, Gap and Tommy Hilfiger.

It has been filed by a coalition of law firms that includes Milberg Weiss Bershad Hynes & Lerach, the New York class action specialist that recently negotiated a $1.2bn payment by Swiss banks to settle claims brought by Holocaust victims and their families.

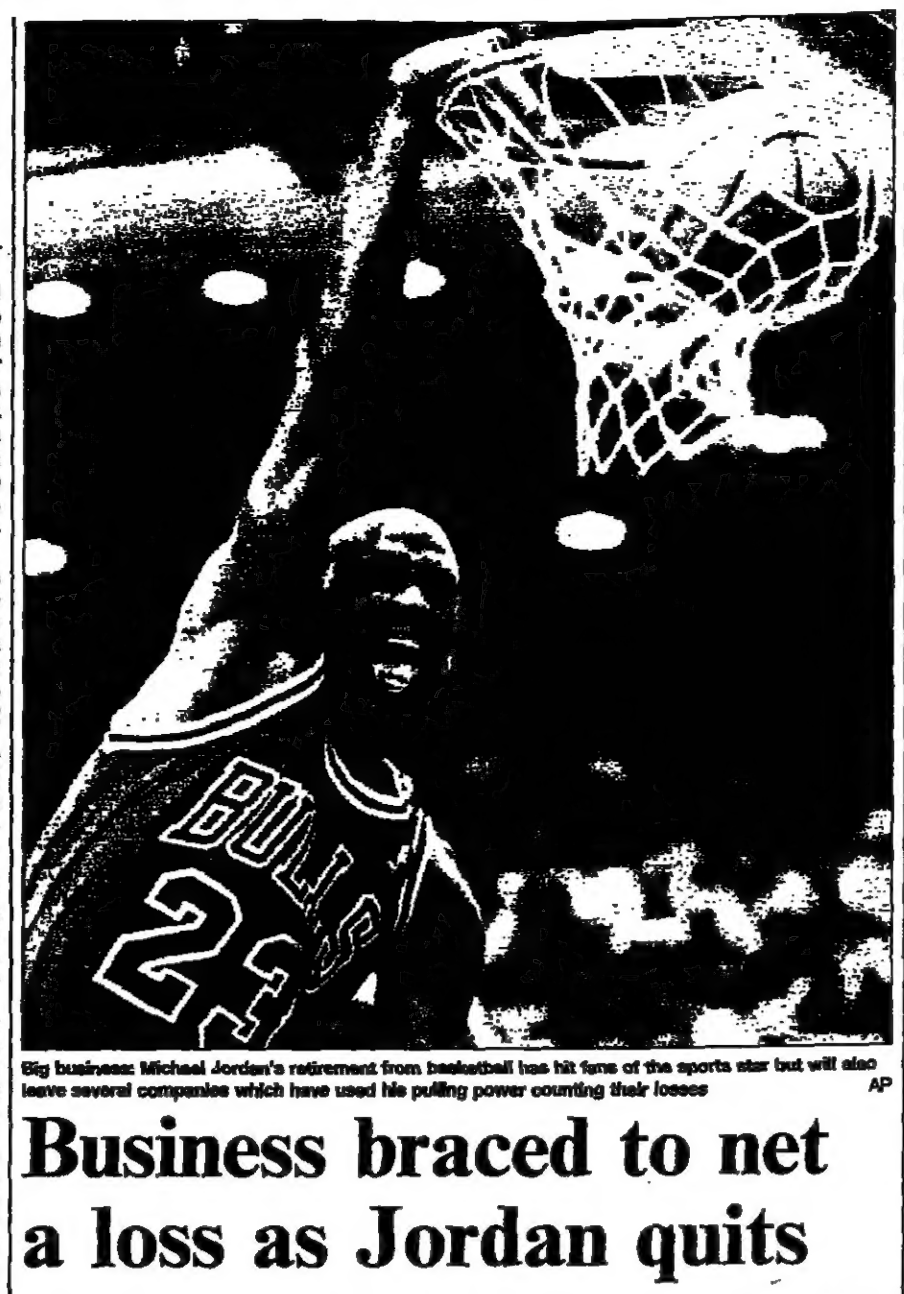
The same firm is now seeking compensation for Holocaust victims forced to work as slave labour during the war.

Sweatshop labour has been a contentious issue in the US for several years, with companies such as Nike facing allegations that they have exploited workers in developing countries to increase profit margins.

Labour unions have been particularly vigorous in keeping the issue alive because of concern that it has resulted in the export of American jobs.

According to yesterday's lawsuits, workers in Saipan agreed to pay recruitment fees of $2,000 to $7,000, then found themselves working in conditions of indentured servitude as they laboured to pay off the debt.

The litigation says Chinese and Korean clothing manufacturers avoided US import duties by shifting production to Saipan, and retailers benefited by being able to put "Made in the USA" labels on their clothes.



Big business: Michael Jordan's retirement from basketball has hit fans of the sports star but will also leave several companies which have used his pulling power counting their losses AP

Business braced to net a loss as Jordan quits

By Nikki Tait in Chicago

They were the words which basketball fans – and Chicagoans, in particular – dreaded. "We do this again," said Michael Jordan, to a 500-strong media audience at Chicago's United Centre yesterday. "I am here to announce my retirement from basketball."

But as the MJ era closes – this time, almost certainly for good – it isn't just sports fans who are counting their losses. During his 13-year tenure as one of the world's most admired and best known athletes, Jordan has become a huge commercial proposition – for the Chicago Bulls, for the Windy City itself and for businesses which have capitalised on his pulling power.

Estimates of the "Jordan effect" are largely guesswork. But a few years ago, the Chicagoland Chamber of Commerce suggested that the direct economic impact of every Bulls game – with Jordan playing – was about $1m. The indirect value, which would include payrolls, was a further $1.5m. Add in broader spending – from T-shirts to bar bills – and the total figure could rise to $10.5m, although much of this is simply diverted from other leisure activities.

More recently, Fortune magazine estimated that Jordan could have added around $3bn to sales of National Basketball Association merchandise over his professional career and raised sales of Nike, the sportswear company, by as much as $5.2bn through his product line and endorsements. Other Jordan-promoted companies – many, such as McDonald's, based around Chicago – could have benefitted to the tune of $400m-plus in additional sales, it suggested.

The ripple effect from Jordan's retirement has already begun. Shares in Nike, the sportswear manufacturer, fell 5 per cent to $42 on Tuesday, as news of yesterday's planned announcement spread beyond the fevered Chicago press.

Down, too, was Quaker Oats, maker of the Jordan-promoted Gatorade drink, and Rayovac, the Wisconsin-based battery company, which recently plastered Jordan's beaming smile across its packaging as it launched US-made batteries in the Chinese market.

Still, not all the news has been bad – and some businesses are even hopeful of a short-term boost from the current wave of publicity.

For example, at the Michigan Avenue outlet store for the Chicago Tribune, one of the two main hometown newspapers, staff were this week reporting a surge in orders for back copies of recent papers.

Many souvenir stores also expect a surge in memorabilia sales, although few had stocked up with "retirement" merchandise. But none of this is consolation for local establishments. At Michael Jordan's restaurant – telephone number 312-644-DUNK – staff were putting on a brave face. Laura Foxgrover, marketing director, said: "With the current NBA lock-out, we've also seen a little loss of business."

Other bar-owners were blunter. "It's been slow during the [NBA] lock-out, and it's good that [the Bulls] will be back," said the manager of one popular downtown watering-hole. "But it won't be the same."

Additional reporting by Elaine Szewczyk

Chile to argue on Pinochet

By John Mason, Law Courts Correspondent

The Chilean government will be allowed to argue its case before the House of Lords during next week's hearing over whether Augusto Pinochet, the former dictator, has immunity from prosecution for alleged crimes against humanity.

The Lords ruled yesterday that both the Chilean government and Amnesty International, the human rights group, could address the hearing. Santiago will argue that General Pinochet cannot be extradited to Spain to face trial because only Chile has the legal jurisdiction to try him.

The Spanish authorities are seeking the extradition of Gen Pinochet for trial under charges of torture, hostage-taking and conspiracy to murder.

In a written petition to the court the Chilean government said it was not seeking to justify Gen Pinochet's actions while head of state, nor prevent him from being put on trial. The Lords are expected to give their reasons for overturning the ruling by tomorrow.

AIRLINE LINK JAPANESE MAY JOIN ONEWORLD

BA and JAL unveil plan to co-operate

By Michael Skapinker in London and Alexandra Harney in Tokyo

British Airways and Japan Airlines yesterday unveiled a co-operation agreement, but the Japanese carrier said it had not decided whether to join BA's Oneworld alliance.

BA and JAL said they would link their frequent flyer programmes from April. In late summer they plan to begin code-sharing, but only on flights between London and Osaka. BA suspended its Osaka service last year because of the Japanese financial crisis but will now sell seats on JAL's flights.

The carriers have steered clear of co-operating on the London-Tokyo route, which they both serve. Industry observers believe the airlines were concerned not to raise regulatory difficulties by extending their alliance to routes where they compete. The arrangements announced yesterday need the approval of the Japanese and UK authorities.

Robert Ayling, BA's chief executive, said he expected to deepen the partnership with JAL in future years. "This is just the beginning of a more extensive relationship," he said. The two carriers have co-operated on cargo services since 1977.

Mr Ayling said he wanted to see JAL joining Oneworld, which is made up of BA, American Airlines, Qantas of Australia, Canadian Airlines, Cathay Pacific of Hong Kong and Finnair. "I think all the founder members would feel it would be very advantageous to Oneworld if JAL were to decide to become a member," Mr Ayling said.

Shinzo Suto, JAL's senior managing director for passenger marketing, said that the airline was still considering its options. He said that JAL now had alliances with all the Oneworld members except Finnair.

But he pointed out that JAL also had partnership agreements with several members of the rival Star Alliance, including Lufthansa of Germany, Thai Airways and Varig of Brazil.

However, JAL's agreement with BA, and the announcement of a code-sharing arrangement with American this week, appear to put it firmly in the Oneworld camp. BA emphasised this by announcing that it would cut its ties with All Nippon Airways at the end of March. ANA, which co-operated with BA on frequent flyer programmes, has said it intends to join the Star Alliance.

The speed with which BA moved to end its relations with ANA shocked the Japanese airline industry. ANA said that while it had been talking to BA about winding down the mileage programme, the announcement came as a surprise.

British Airways gives backing to Iberia chief

By Michael Skapinker in London and David White in Madrid

British Airways yesterday warned that its planned investment in Iberia would go ahead only if Xabier de Irala, the Spanish carrier's chairman, remained in his post.

Spanish newspaper reports have suggested that Madrid, which owns 95 per cent of Iberia through the state holding company Sepi, plans to replace Mr Irala. Sepi denied the chairman might be replaced and said BA's concerns were the result of a "phenomenal misunderstanding".

Robert Ayling, BA's chief executive, yesterday said Mr Irala was the key to ensuring the UK's carrier's investment went ahead. BA and American Airlines were due to sign a deal six weeks ago to take a joint 10 per cent stake in Iberia for Pta58bn ($403m), setting the stage for privatisation of the Spanish carrier.

BA would be the bigger investor, with a 9 per cent stake, while American would hold 1 per cent. Iberia would become a member of Oneworld, the international alliance led by BA and American.

However, the planned tie-up with Iberia has been delayed by worries about management control of the airline. Spanish aviation experts close to the negotiations yesterday confirmed there had been problems drafting terms covering the new partners' veto rights in Iberia.

They said there was no suggestion that the Spanish government, which appointed Mr Irala in 1996, had any plans to change the top management at the company.

Mr Ayling said: "Mr Irala is, in our view, one of the assets of Iberia. We have a very high regard for his experience and management skills.

"We believe that he and his team are making a nationalised airline into a modern, profitable, potentially successful business.

"It's our objective if we invest in Iberia to ensure that Mr Irala's service is part of the agreement. He is a very important ingredient."

Chinese shipping rules frustrate US

By James Kynge in Beijing

US frustration over "restrictive practices" imposed by China on foreign shipping lines threatens to complicate efforts to renew a bilateral maritime agreement in talks next month.

Jim Oberstar, the senior Democrat on the House transportation committee, yesterday said after official talks in Beijing that US industry tension was mounting over several non-reciprocal Chinese practices.

Mr Oberstar criticised China's proposal in December to require public disclosure of shipping contract terms and individual freight rates on containers moving through all mainland ports.

The act, expected to come into effect on January 15, would run counter to the effects of the Ocean Shipping Reform Act, which the US enacted on October 14.

Mr Oberstar said that confidential negotiations on rates should be allowed to continue in order to ensure a truly competitive environment.

Under the Chinese rules, the published rates would apply to all shipping companies that wished to use them, and would have to receive approval from Chinese authorities.

Industry analysts said that Beijing's regulations – which would probably result in higher rates – were aimed at protecting mainland shipping companies, especially the China Ocean Shipping Co (Cosco), which have been hit by the highly competitive environment in trans-Pacific traffic.

But the disagreement on freight rates was not the only issue frustrating progress toward renewing the US-China Maritime Agreement, which lapsed last September and then was extended for three months.

Mr Oberstar said that China's limits on foreign carriers opening branch offices was unfair because any Chinese shipping line was free to open offices anywhere in the US.

Another Chinese rule against US carriers shipping freight from third countries such as South Korea to China was also undesirable.

He added that Cosco, a state-run company, should act more like a private company rather than receiving injections of state funds when it needs them.

"They have to re-think their policy that they are a developing country in maritime trade," Mr Oberstar said, citing the fact that Cosco has one of the world's largest shipping fleets.

He was reluctant to consider reprisals against China before next month's talks, but noted that Japanese shipping lines have in the past been fined for persisting with restrictive practices.

IMF team suggests resuming lending to Zimbabwe

By Tony Hawkins in Harare

After months of negotiations and delays, an International Monetary Fund team is to recommend the disbursement of a further $53m tranche of a $176m standby loan to Zimbabwe.

The first tranche was disbursed soon after the loan was approved last June, but it quickly became apparent that Harare would not meet agreed targets and subsequent tranches were delayed.

Goodall Gondwe, head of the IMF's Africa division, claimed that the Fund was satisfied with Zimbabwe's explanations of how land acquisition would be handled, and how the country's military involvement in the Democratic Republic of Congo was being financed. The Fund was also satisfied with Zimbabwe's fiscal position, he said, and had been assured that price controls on the staple food, maize-meal, would be reviewed in June.

The IMF had been assured that Zimbabwe would abide by the compromise agreement on land resettlement reached last September with donors, since overtaken by the government's "relisting" of 841 farms for immediate acquisition. At New Year, Robert Mugabe, the president, publicly rejected the agreement, saying the 841 farms would be acquired soon, with the farmers being paid with IOUs. Mr Gondwe contradicted the president, saying the Fund had been assured that this would not be the case.

Herbert Murerwa, finance minister, said the disbursement of the $53m would pave the way for the release of a further $800m over three years from various lenders and donors.

When the executive board approved the standby on June 1 last year it was assured by fund professionals that inflation would have fallen below 20 per cent by December (it was 45 per cent in November), that the balance of payments would strengthen, and the economy would grow at about 3 per cent.

In fact, gross domestic product growth is estimated at 1.5 per cent, the balance of payments has barely improved, price controls and some exchange controls were reimposed and punitive import tariffs put in place.

The IMF's most remarkable forecast for the economy, though, was that the exchange rate would stay below Z$30 to the US dollar until the year 2001. It briefly fell below Z$40 last Friday and after recovering on Monday was sharply lower again yesterday, with importers ignoring the IMF's promises.

Economists are not surprised at the IMF team's decision to recommend disbursement, though there is scepticism over the government's "assurances" which few in the private sector take seriously.

Highlighting government sensitivity over the war in Congo and reporting of the events involving the army, police this week arrested Tendayi Chavunduka, editor of an independent weekly newspaper, the Sunday Standard.

His arrest followed a news conference at which Moven Mhachi, defence minister, denied a report in the Standard on Sunday that 23 officers had been arrested for inciting their colleagues in the defence forces to overthrow the Mugabe government.

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Date set for shift of powers to N Ireland

By John Murray Brown in Dublin

March 10 is the target date for shifting lawmaking powers to the new Northern Ireland assembly, the governments of the UK and Republic of Ireland announced yesterday. The transfer will be the first piece in the UK government's plan for transferring many executive powers from London to the UK regions.

Mo Mowlam, chief Northern Ireland minister in the UK government, yesterday outlined the timetable for setting up 10 executive departments and six bodies to implement policies in co-operation with the republic. At the moment the assembly has power only to hold debates and comment on the work of UK ministers in Northern Ireland.

Ms Mowlam said she was setting in place "the housekeeping matters" to enable the transfer to take place. She said the two governments were preparing draft treaties to establish the North-South ministerial council which will link the region and the republic. Legislation is also being prepared to create the British-Irish Council which will include representatives of the two governments and members of the regional assemblies in Northern Ireland, Scotland and Wales.

Both governments are anxious to have the executive in place by the first anniversary of the April 1998 peace agreement. Ms Mowlam said she was awaiting the outcome of Monday's assembly meeting when its leaders are due to report on the December agreement on government structures.

Martin McGuinness, chief negotiator for Sinn Féin, political wing of the Irish Republican Army, said yesterday: "Whatever happens on Monday, Mo Mowlam has the ability and the power to ensure that the executive is formed and I hope she uses that power."

However Paul Murphy, the UK government's Northern Ireland political development minister, stressed that March 10 was "a legislative target – not a deadline".

● Tony Blair, the UK prime minister, has made a passionate defence of his devolution programme, insisting that the constitutional status quo is no longer tenable, Andrew Parker and Brian Groom write.

In an interview with the Financial Times, Mr Blair said people in Scotland, Wales and Northern Ireland wanted a changed relationship between their regions and the UK.

"In today's world it has to be a partnership, not simply an old-style centralised UK with everything run out of Westminster and Whitehall because that won't work anymore and is not acceptable to people."

Mr Blair insisted that critics were wrong in describing his regional plans as incoherent. "The driving force behind the idea of constitutional change is to strengthen the country and make it fit for the 21st century by modernising its institutions," he said.

Blair Interview, Editorial Pages

OIL SPILL COURT HEARS PLEA FROM AUTHORITY THAT ACCEPTS RESPONSIBILITY FOR TANKER CATASTROPHE

Port admits causing pollution disaster

By Charles Batchelor, Transport Correspondent

A judge was urged yesterday not to impose a heavy fine on a port authority that earlier admitted responsibility for the pollution caused by the grounding of the tanker Sea Empress off the coast of south Wales. The tanker spilled 72,000 tonnes of oil into the sea causing more than £100m ($168m) of damage in one of the UK's worst environmental disasters. The oil killed thousands of sea birds, shut the local fishing industry for six months and damaged local tourism.

A large fine would simply reduce the funds available to the Milford Haven authority in south Wales, which is a public trust, to invest in the local economy, said Brian Leveson, a defence lawyer.

Cardiff Crown Court was told earlier that John Pearn, the pilot on the Sea Empress, had never before taken a ship of similar size into Milford Haven. Mr Pearn, who was not being prosecuted for the incident, took the wrong course as he approached the harbour.

Radar installations near the harbour mouth were not working on the day of the disaster, the court was told. Under revised rules, ships the size of the Sea Empress must now have two pilots on board.

The authority pleaded guilty on Tuesday to causing the pollution which resulted from the grounding of the 147,000-tonne ship in the approach to the harbour almost three years ago. It faces unlimited fines under the Water Resources Act.

Sea Empress: 72,000 tonnes of oil caused more than $150m of damage Press Association

The judge last night adjourned the case and will give his ruling on Friday.

Mr Leveson said the position of the port authority could not be compared with that of a wealthy oil company. All its profits were ploughed back into Milford Haven and improving facilities at the port.

The port authority has since revised its training and pilotage procedures. The authority accepted that the oil spill had had a "calamitous effect on many aspects of life in Milford Haven and beyond".

The court proceedings came six months after publication of a critical report by the Marine Accident Investigation Branch. The report said the grounding was the result of a catalogue of mistakes, and emergency measures in place were overwhelmed by the scale and complexity of the disaster.

Britons in Yemen likely to face terror charges

By Robin Allen in Dubai and Andrew Parker in London

Five Britons arrested in Yemen, and accused of having links to Moslem radicals running military training camps in London, are expected to be charged shortly with terrorist offences.

The five, who together with an Algerian and two Yemenis were detained on December 23, have been accused of planning to blow up the British consulate in Aden, and a church and hotel.

"The police file on the five accuses them of being in possession of bombs and explosives, including two Chinese-made shoulder-fired rockets," said Badrah Salman Basumaid, lawyer for the five Britons. "But they have not legally been charged, and there is no way of telling whether their confessions were made willingly or under duress."

Hussein Al Amri, Yemen's ambassador to Britain, claimed the charges against the five Britons would relate to terrorist offences and connections with the kidnappers who seized 16 tourists on December 28. Three Britons, who were among the 16, were later killed in a rescue attempt by the Yemeni authorities.

Robin Cook, foreign secretary, while stressing it was too early to speculate what would happen to the five Britons under arrest, said the UK had a "strong stance" of opposing the death penalty. Mr Basumaid said the five have family links with Abu Al Hamza, an Egyptian cleric at London's Finsbury Park mosque and one of the organisers of Islamic military training camps in the UK.

Mr Al Hamza has said he would welcome the overthrow of the Yemeni regime, and condemned the recent US and UK attacks on Iraq. The Yemen regime has joined other Arab governments in criticising what is seen as the UK government's permissiveness in allowing Islamic extremists, including some wanted in their own countries, to operate freely in Britain.

● The Foreign Office said John Brooke, a UK oil worker kidnapped in Yemen last Saturday, had been released safe and well.

Tax harmonisation warning from Germany

By David Wighton, Political Correspondent

Britain could be forced to accept tax harmonisation as the price of membership of the single currency, according to a senior member of Germany's ruling Social Democrat party.

Ingrid Matthaus-Maier, the SPD's former finance spokeswoman, told a private meeting of British MPs that Germany would expect the UK to pay a price for admission to a successful euro. Vincent Cable, finance spokesman for the opposition Liberal Democrat party, attended the meeting and said Ms MatthausMaier had claimed Britain would be under pressure to give ground over the budget rebate and tax rates.

Although Ms Matthaus-Maier is not a member of the German government, her comments will increase single currency supporters' concerns that the longer Britain stays out of a successful euro the higher the price of membership will become. They will also provide ammunition for anti-euro campaigners warning that joining would lead to further political integration.

Under the Maastricht Treaty, any country meeting the criteria laid down should be admitted to the single currency automatically. But the UK government's determination not to join the Exchange Rate Mechanism – as stipulated by the treaty – will give the euro-zone countries some leverage. They will have to agree that sterling has shown the necessary exchange rate stability to qualify.

Mr Cable said the budget rebate issue was likely to have settled by the time Britain applied for membership. "What is more likely is that there will be pressure to lock in sterling at a rate which may be inappropriate for the UK."

He called on the UK government to anticipate this problem by setting out a clear timetable for entry and starting a process for determining what a competitive rate means for the nation.

Mr Cable's comments were backed by Maurice Fitzpatrick, head of economics at accountants Chantrey Vellacott, who yesterday wrote to Gordon Brown, chancellor of the exchequer, asking him to clarify the government's position on conditions of entry. "It appears inconceivable that the government of the euro countries concerned will fail to take this opportunity, if only to try to impress their domestic audience," he said.

Ministers yesterday came under fire in the Commons over the government's cautious policy towards the euro. Malcolm Bruce, the Liberal Democrat's Treasury spokesman, said: "The government says its policy on the euro is to 'prepare and then decide'. But until the government has made up its mind it can only tinker at the edges of preparation rather than addressing the big issues of interest rate convergence and the level and stability of the pound."

Employment up to 8-year high

A sharp fall in unemployment has cast doubt on the belief that labour market pressures may be easing, Christopher Adams writes. The number of people claiming state unemployment benefit dropped 14,000 from a revised 1.325m to 1.311m last month, suggesting that economic growth may be more robust than thought.

The latest figures surprised economists. Many had expected a rise in the jobless total for the third month in a row. The rate of employment hit a fresh record of 73.8 per cent, the highest level for 8 years. Business groups and union leaders warned the impending slowdown would soon hit jobs.

ICI offshoot to use euro as base currency

By Kevin Brown, Industry Editor

ICI Polyurethanes will this weekend become one of the first UK-owned companies to begin using the euro as its base currency in what managers describe as a "courageous leap" into the single European currency.

ICI is also considering producing a euro supplement to its group accounts for 1999-2000, which will include the first full year of operations in the single currency. ICI said its polyurethanes business would be its first subsidiary to use the euro for internal management accounting. The company is based in the Netherlands, but also manufactures in the UK.

KPMG, the professional services firm, is expected to be the first UK organisation to report in euros when it releases its final results for 1997-98 next month. However, KPMG is not using the euro as its internal unit of account.

Other companies, including Ford, British Petroleum, Rover and GKN have asked suppliers to begin invoicing in euros, and the Inland Revenue expects at least 20 big companies to seek to pay taxes in euros this year.

However, observers said ICI Polyurethanes appeared to be making the switch to full euro accounting very early. "They are not letting the grass grow under their feet, but that is in line with ICI's generally very pro-euro approach," said a senior manager at another UK multinational.

Diageo, the drinks and food group, said yesterday that it would begin shifting its euro-zone subsidiaries to euro accounting after the end of its financial year, on June 30. Cruz Campo, a Seville-based brewer, is likely to be the first Diageo subsidiary to make the transition.

Diageo said it would also ask big suppliers selling to its operations across Europe to invoice in euros from September. UK companies supplying only UK businesses will be exempted, but those supplying Diageo plants across Europe will be asked to comply.

Most subsidiaries of UK companies based in the euro-zone are expected to switch to euro accounting some time in the three years to 2002, when euro notes and coins will be introduced in the euro-zone.

NEWS DIGEST

CITY OF LONDON

Law firms abandon their second attempt to merge

Merger plans between City law firms Richards Butler and Theodore Goddard, which would have created London's twelfth largest legal practice, have been abandoned. Although the senior managements of both firms were in favour of the move, partners at Theodore Goddard are understood to have blocked it.

Inability to agree the merger follows the failure in October of the proposed three-way merger between Richards Butler, Theodore Goddard and Denton Hall. This plan, which would have created the fifth largest law firm in the UK, failed because of differences over the Hong Kong operations of Richards Butler and Denton Hall.

The failure of the two-way merger talks was not blamed on any single factor. A joint statement said the advantages were not sufficient to outweigh the disadvantages. Chris Schulten, chief executive of Richard Butler, said his firm was committed to "building on our widely recognised international strengths". **John Mason, London**

GERMAN-BASED ENTERPRISE

Plan to sell 'green' electricity

WRE, a renewable energy company based in Frankfurt, Germany, plans to sell "green" electricity in England and Wales from April. WRE said it had been given permission by Offer, the UK electricity industry regulator, to supply power generated by a consortium of companies harnessing solar, water, wind and bio-power.

The company said: "Our prices will be around 10 per cent above others but will not be unrealistic but rather in the top third of competitors." Offer is expected to give its formal response to WRE's licence application next week. The company said it expected to launch a similar scheme in Germany in the summer. WRE, which has three hydro-electric power stations in the Czech Republic and Italy and a wind park in Portugal, said it planned to build wind parks off England's south-west coast and in the North Sea, close to the German coast. **Andrew Taylor, London**

HORSE RACING BOARD

Request to control pool betting

The British Horse Racing Board, the sport's ruling body, has asked the government to hand over control of the Tote, which enjoys a monopoly of UK pool betting on horse racing.

The request was announced at the BHB annual industry forum by Peter Savill, chairman of the BHB. "There is no evidence that the government owns the Tote; no government money has ever been given to the Tote either on its foundation or subsequently; and the Tote was founded specifically to raise money for horse racing," he said. "The clear inference is that racing has a very obvious proprietary right to the Tote." **Colin Cameron, London**

OFFICE OF FAIR TRADING

Call for cheap bank accounts

The Office of Fair Trading yesterday called on the financial services industry to offer cheap and flexible bank accounts and insurance policies to low income households, and threatened regulatory retaliation if they do not. John Bridgeman, director general of fair trading, said: "Current business practice, it seems to us, is excluding millions of people from financial services."

Banks said accounts linked to debit cards authorising all payments electronically, already filled the gap Mr Bridgeman had identified. "These are all good ideas. In fact, they are so good that the banks are already offering them," said Roger Miles of the British Bankers Association. **George Graham and Vicki Bakhshi, London**

MOTORCYCLE INDUSTRY

Sales at 13-year record

Sales of motorcycles and scooters rose by 30 per cent last year to 120,416, the highest annual figure for 13 years, the Motorcycle Industry Association reported yesterday. A total of 97,860 motorcycles was sold in 1998 – a 21 per cent rise on 1997. Sales of mopeds, at 22,556, were up 79 per cent. Motorcycle and scooter sales have now almost trebled from the 1993 figure of 46,724.

High-tech home system has entertainment at heart

A personal cinema is part of latest sound and light package, reports **David Murphy**

Picture the scene: you come home after a long day at the office, looking forward to unwinding in front of a film. In a sparsely furnished room, you pick up a remote control, about the size of a hardback book, and press a button.

The lights dim, the curtains close, a video projector and screen descend from the ceiling and a rack of equipment that is hidden in a cupboard and includes a surround-sound amplifier, VCR and DVD (Digital Versatile Disc) player, fires up.

Ten minutes later, you are immersed in the images projected on the huge screen and the surround-sound effects whizzing around your ears. When the film is finished, you press another button and the system goes into hiding again, enabling the room to be put to other uses.

It might itself sound like something out of the movies, but with prices for a "media room" such as this starting at about £15,000 ($25,000) in the UK, more people are finding they do not need a film star's income to afford one. They also do not have to put up with "spaghetti" wiring. "The main reason people install a media room is because they don't want to see boxes and cables all over the place" says Steve Moore of SMC, a specialist multi-room installer. "A discreet installation is usually somewhere near the top of their wish list."

Much of Mr Moore's work is at the top end of the scale, referred to him by architects and building companies.

In a typical SMC installation, the media room forms part of a multi-room system with music distributed throughout the house, a security camera by the front door wired to a spare television channel, and a lighting control system with dozens of "channels" that provide different lighting conditions to suit different rooms and usage patterns. If a projector capable of handling data as well as video is used in the media room, it can double up as a boardroom.

Like most media room installers in the UK, Mr Moore's company is a member of Custom Electronic Design and Installation Association (Cedia), an international trade association.

Cedia's UK arm was established in 1996 and is chaired by David Graham of Graham's Hi-Fi, a north London specialist. "If harnessed properly, technology can be a lot of fun," he says. "If you have a guy who works 15 hours a day in the City, when he comes home in the evening, he doesn't want a fight with his system. He wants to be able to press a button and have everything happen for him. A good system should be inversely proportional to its complexity. The more sophisticated it is, the easier it should be to use."

Whatever they are looking for, UK clients are usually keen that the system is out of sight when not required. "People often don't want to see the equipment," he says, "and there's no reason why they should."

Architect warns over threat of urban decline

By Brian Groom in London

The government must change its whole approach if the decline of Britain's cities and towns is to be reversed over the next 30 years, Lord Rogers of Riverside, chairman of the government's urban taskforce, warned yesterday.

Lord Rogers is better known as Richard Rogers, the British architect of buildings in many cities, notably the Centre Pompidou in Paris and the headquarters of the Lloyd's insurance market in London.

Unveiling his taskforce's halfway report, he said: "An urban renaissance is not going to come easily or cheaply." His final report, later this year, will make recommendations on tax and investment, urban design, planning and land assembly.

The taskforce was appointed to help defuse the controversy over housebuilding in the countryside, by making towns more attractive to live in and stepping up building there.

But the Council for the Protection of Rural England accused the government yesterday of undermining the taskforce by continuing to allow greenfield sites to be allocated for thousands of new houses.

Lord Rogers' halfway report lists 25 principles to improve the urban environment. Financial measures include: tax breaks for building on "brownfield" land; ending mortgage interest tax relief for homes on greenfield sites, and ploughing the money into towns; "impact fees" on new developments; and penalties for keeping land vacant.

"Brownfield" land is urban land cleared by demolition. Greenfield sites have never been developed.

CINEMA

Lives unravelled with insane logic

Roos's film has all the best lines, all the best situations and all the best performances, says **Nigel Andrews**

The Opposite Of Sex has no right to be as good as it is, which is as good as a modern American comedy gets. Don Roos's writing-directing debut, launched at the Sundance Film Festival which is becoming US cinema's equivalent of quattrocento Florence or Paris under the Impressionists, puts unfair stress on the rest of the year. Filmmakers will look at a depleted cupboard of possibilities. Roos, whose previous credits include the inauspicious scripts for *Single White Female* and *Diabolique*, has made away with all the best lines, all the best situations and all the best performances.

Any film that boasts a heroine like that played by Christina Ricci has a head start. The *Addams Family* minx has now grown up, or not so much up as out, and in all the right places. As a runaway teenager from a southern trailer park, she has no illusions about life, love, sex or anything. She is like Barbara Stanwyck possessed by the body of a young Louisianan Barbara Windsor. She delivers a voice-over like a machine gun – "There's other people a lot nicer coming up. We call them losers" – while moving in on the lives of a lover-bereaved gay brother in Indiana (Martin Donovan), his new boyfriend ((William Lee Scott) and the sister of the deceased lover (Lisa Kudrow).

Kudrow, finding an inspired obverse to her role in TV's *Friends*, is a solemn schoolmarm of billowy height, hung up on Donovan, her literature-teaching quasi-brother-in-law. Her function is to be appalled when Ricci arrives, hangs her headband, kicks off her inhibitions and loses no time – say an evening – in seducing the boyfriend. "My god, she's the human tabloid," gasps Kudrow as Ricci makes a play for every man she meets, including total strangers on the street. Somewhere in the centre of the woman-war stands Donovan, marvellously longsuffering, an actor who has learned Trappist stillness from Hal Hartley films.

Roos lets not a scene lie idle nor a character come without a comic calling-card. This is an America in which changing mores – changing by the day or minute – open up chasms between generations. "You got a problem?" asks Donovan of a young student scratching his crotch. "New piercing," he explains.

Soon the plot has decanted itself across America, Indiana being too small to contain it, though Ricci's voiceover purrs on, adding an insane logic to unravelling lives. Her brother's flight to Los Angeles raises no real-estate problems, she notes – "Gay houses usually sell right well because of the recessed lighting and good faucets" – and soon the relationships have developed an Aeschylean complexity, mixed with a Tennessee Williams dottiness.

Even Kudrow loosens her hair and her vocabulary. "Vagina! Vagina! Vagina! Doesn't that do anything for you?" cries the willowy virgin, at last coming out to Donovan, though skipping every chat-up stage between delicacy and dementia. The non-heterosexual remains a polite, well-spoken wall of non-seducibility.

The pace is so perfect that Roos's movie should go straight into film schools. Here earnest professors could wave it about in seminars on comic timing and writing.

The opposite of sex, by the way, is love. But that need not detain you: it detains no one in the film. For them life and its headlong pattern of cause and ill effect – the pure mathematics of comedy – are more formidable than love, lust, sex or any other single motor part of human activity.

★

Meet Joe Black was made for people who want to spend three hours looking at Brad Pitt. (Not necessarily a negligible cross-section of the universe.) Nothing else could explain why director/co-writer Martin Brest of *Scent Of A Woman* and *Beverly Hills Cop* has turned a back-of-the-envelope plot idea into a movie as long as the Magna Carta.

Pitt, like a good sex idol, barely moves, just stands, pouts and flexes his flaxen-haired gorgeousity. As "Death", he has taken over the body of a young man run over by a car in an early scene after falling in love with the daughter of heart-diseased tycoon Anthony Hopkins. Pitt-as-Death wants a holiday, so he will extend Hopkins's life in return for briefly sharing it. That includes his mansions, his board meetings and his doubts over a merger most foul proposed by his ambitious would-be son-in-law.

There are many questions for those wakeful enough to ask them. Can Pitt the elder, that is Death, restore Pitt the younger, the slain boy, to life and love? Will Hopkins, a philanthropist-tycoon to gladden the heart of Dickens's Cheerybles, defeat the merger? And what will the Internal Revenue Service do about death duty on all those paintings littering Chateau Hopkins? Mirós, Chiricos, Rothkos: art director Dante Ferretti must have broken into the Guggenheim and thrown the contents into a getaway skip.

The film is a long day's journey into triteness, with an ending that never seems to end. But thanks to an Italian designer and Mexican cinematographer, Emmanuel Lubezki of *Like Water For Chocolate*, and indeed to Pitt, it does at least look good.

★

Dobermann looks like something the dog brought in. The style is Penitential Scuzziness, dark when not livid with gunfire, and the characters are all gangsters trying to kill each other. Frenchman Jan Kounen, adapting a *roman* by Joel Houssin, has adopted a favourite post-New Wave strategy: shoot first and let the audience ask questions later. But if we have no idea, we have even less interest in, why persons A, B and C are chasing persons X, Y and Z, their exertions intermitted with surreal moments involving dogs, babies and crash helmets.

An audience that understandably leaves for another cinema might see *Sour Grapes*, written and directed by Larry David, the creative brain behind TV's *Seinfeld*. This comedy of errors involving a young brain surgeon (Steve Weber), his jackpot-winning gambler friend (Craig Bierko), various women and an actor (Matt Keeslar) who loses his testicles in an operating-table mishap has moments of Seinfeldian wit.

Unfortunately they can be counted on the fingers of one hand – I resist a comparison more appropriate both numerically and anatomically – and the acting by a cast of non-comics shows just how good Seinfeld and Co are at coaxing inspiration from inconsequence.

★

54 has the terrible beauty of the inane. We dive back into the 1970s for a fictive celebration of New York's famed Studio 54 nightclub. Here are the glitter and glitterati; the bare-torso'd barboys, including our hero played by Ryan Philippe, a cross between Travolta and a Playgirl centrefold; and the sweet tang of self-immolation as owner Steve Rubell (*Wayne's World*'s Mike Myers), goes out in a blaze of drugs, promiscuity and tax avoidance. The film is like *Saturday Night Fever* reconceived by an untalented but nostalgia-struck Truman Capote.

THE OPPOSITE OF SEX
Don Roos

MEET JOE BLACK
Martin Brest

DOBERMANN
Jan Kounen

SOUR GRAPES
Larry David

54
Mark Christopher

Minx grows up: Christina Ricci as the runaway teenager with no illusions about life in 'The Opposite of Sex'

OPERA TEATRO SAN CARLO, NAPLES

'Eleonora' stirs up controversy

The inauguration of the opera season in Naples is always exciting, but this year the occasion was even more lively than usual, and the elegantly-dressed members of the first-night audience were greeted by a large group of noisy demonstrators on the steps of the Galleria, opposite the theatre, while a larger group of police faced them from the arches of the facade.

"Eleonora was a prostitute!" a protesting voice shouted through a loudspeaker. "She was a French spy!"

The Eleonora in question was not a recent political figure; in fact, she died – hanged in public – on August 20, 1799, for her outspoken part in the anti-monarchist revolution and her support of the ill-starred Parthenopean Republic. Though it lasted less than six months, that Republic occupies a crucial, much-debated place in the cultural history of Naples. And its bicentennial is being celebrated amid continuing polemics.

Furthermore, the first notable event of the celebration was devoted to the controversial heroine: the opening production at the San Carlo was *Eleonora*, a dramatic oratorio devised by the Neapolitan musicologist, composer and director Roberto De Simone.

Rather than a straightforward representation of the life of Eleonora de Fonseca Pimentel, the Roman-born aristocrat-intellectual of Portuguese background who lived largely in Naples, De Simone's piece is a collage, musical and literary, on her life and on the parallels between the turbulence of 18th century revolutions and subsequent periods of violence and social upheaval.

So it was no surprise to see today's political factions lining up outside the theatre to have their say, amid slogans and banners that were directed more against the present Communist mayor of Naples, Antonio Bassolino, than against the poor Marchesa Pimentel.

Street politics apart, the spectacle inside the house was superbly satisfying, thanks largely to the unforgettable performance of Vanessa Redgrave in the title role. Speaking in barely-accented Italian, reciting excerpts from letters of Resistance victims, as well as passages by Tolstoy, Brecht, Mayakovsky, and Thomas Mann, the actress was the embodiment of unassuming heroism, human dedication.

Much of the time, she remained still, clad in a simple, rough, grey, sack-like garment, but her few movements were, each one, telling. The gala audience – including Italy's prime minister and half his cabinet – sat in rapt silence and, after two hours without interval, rewarded her with a rich ovation.

But the triumph did not belong solely to Vanessa-Eleonora. For the musical part of his mosaic, De Simone – abetted by his gifted composition students from the Conservatory – deftly interwove pages from 18th century Neapolitan composers (Durante, Leo, Cimarosa, Paisiello), with specially-composed music and an anonymous Neapolitan Republican anthem discovered in the Conservatory archives. The simplicity of the anthem, especially when sung by Redgrave, was profoundly stirring.

The first-night audience was greeted by a large group of noisy demonstrators

For the more demanding numbers De Simone provided professional singers, headed by the affecting mezzo soprano Bernadette Manca de Nissa. Except for one brief choral mishap, the young Stefan Anton Reck conducted the reduced orchestra and the double chorus securely.

The appropriate costumes of Zaira de Vincentiis and the louring, lava-coloured set by Nicola Rubertelli added to the visual pleasure of the evening (which could have been profitably shortened by the omission of an over-obvious mimed episode of some soldiers torturing a civilian and by the tightening of the repetitive Pulcinella-Executioner scene, which broke the taut pace of the performance).

Expectedly, the reception in the press tended to split along party lines; but there could be no question about the spontaneous enthusiasm of the Neapolitan audience, nor about the worth of what they saw and heard.

William Weaver

A sensitive conspiracy for young lovers

BALLET

CLEMENT CRISP

Romeo and Juliet
Royal Festival Hall, London SE1

The Royal Festival Hall stage has little to recommend it for dance performance, for it spreads movement widely but allows little depth for it to seem properly shaped. However, its raked seating means that the dance is perfectly visible, and detail that can otherwise be lost from Covent Garden's proscenium – dancers have noted the gulf over the orchestra pit that blocks communication with their public – maintains all its life and interest at the Festival Hall.

On Tuesday night, for the last week of the Royal Ballet's residency, MacMillan's *Romeo and Juliet* entered the repertory. The shallow stage has necessitated some re-thinking of the design, most successfully done by Nicholas Georgiadis. The main structure – the curve and stairs of the permanent set – remains. The lesser matters have been imaginatively re-thought. I like very much the flambeaux outside the Capulet palace and the claustrophobic atmosphere of Juliet's tomb. Nothing has been lost in decorative power.

Tuesday's cast has, with two minor exceptions, never seemed better in my experience. Sylvie Guillem's Juliet is rich in detail, absolutely convincing in feeling, beautifully considered as a portrait of a young girl whose innocence cannot mask her strength of character. (Like Plisetskaya's stormy, proud Juliet with the Bolshoi, we see how potently Juliet is the motive force of the drama). Guillem is subtle in playing, seeming lost in the part, reacting with entire naturalness to each character, every situation – how good she was with the Nurse, showing us a child turned to a woman. It was infinitely touching to see how, in the bedroom scene when Paris kisses her hand, this Juliet is still lost in dreams of Romeo, and suddenly awakens with acute dislike to the gesture of a man she cannot love. A small example, but illuminating of Guillem's sensitive view of the role. Her dancing was light, clear, strong, dominating. Not aways "lyrical" in that rounded, impulsive manner that marked Lynn Seymour's great creation – Guillem shapes the movement from a very different physique, from the strong centre of her torso – it is nonetheless a vivid and handsome physical exposition of the role. And the character lives utterly for us.

I do not think I have seen Jonathan Cope better as Romeo. His portrait is as detailed and loving as Guillem's, every least action felt, understood, shown, and his rapport with her is unfailing. They respond intuitively to each other – they are, as lovers always are, a conspiracy of two – and there can be no greater praise. There is in Cope's reading a sensitivity to small things, to the importance of a slight gesture, the value of a quick turn of the head, that sheds great illumination on the character. He knows that Romeo is a youth ready for flirtation, and his first encounter with Juliet is really no more than that. He becomes, rightly for this staging, the willing victim of Juliet's passion, and the entire emotional purpose of the ballet gains in resonance. I thought it a very fine reading indeed. The entire troupe was on brightest form – if, at moments, rivalled by the distracting gestural vivacities of Andrea Quinn who was conducting. This week's performances are dedicated to the memory of Christopher Gable, the inspirer of the role of Romeo and its great original. It is a fitting tribute to a noble balletic spirit.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
Adriaen de Vries (1566-1626): Imperial Sculptor. Major exhibition celebrating the work of the Dutch sculptor, who worked for Emperor Rudolf II among other European courts; to Mar 14

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-93-329 1908
www.bcn.fjmiro.es
Magritte: exhibition celebrating the centenary of the artist's birth. Contains over 90 paintings and 5u photographs; to Feb 7

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
High Renaissance in the Vatican: Art and Culture at the Papal Court (1503-34). The early 16th century saw Rome establish itself as the centre of art in Europe: the Vatican commissioned work from such great artists as Leonardo da Vinci, Michelangelo and Raphael. This exhibition displays some of the masterpieces that resulted, as well as detailing the contexts in which they were produced; to Apr 11

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Mefistofele: by Boito. György Györiványi Rath conducts a revival staged by Peter McClintock. Samuel Ramey sings the title role; Jan 16, 19

DUBLIN

THEATRE
Abbey Theatre
Tel: 353-1-878 7222
The Rivals: by Sheridan. New production directed by Brian Brady and designed by Conor Murphy, with lighting by Trevor Dawson; to Jan 23

EDINBURGH

EXHIBITION
National Gallery of Scotland
Tel: 44-131-624 6200
Turner Watercolours: shown every January for 90 years, this magnificent selection of 38 watercolours was bequeathed by Victorian collection Henry Vaughan in 1900; to Jan 31

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
Treasures from King Zhao Mo: King Zhao Mo's tomb, sealed in 122 BC, was accidentally discovered in 1983 by construction workers. This exhibition displays the many treasures buried there, the first time they have been seen in the west; to Jan 22

LILLE

EXHIBITION
Palais des Beaux Arts
Goya: un regard libre. Small-scale exhibition which explores the range and peculiarities of the painter's work. The 50 works on display include loans from around the world; to Mar 14

LISBON

EXHIBITION
Fundaçao Arpad Szenes - Vieira da Silva
Tel: 351-1-388 0044
Alberto Giacometti: the 19 sculptures and 20 drawings on display here are loaned by the Maeght Foundation, Saint-Paul, and include such famous pieces as Femme de Venise and Homme qui marche; to Jan 31

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● BBC Symphony Orchestra and Chorus: conducted by Andrew Davis in works by Messiaen. With piano soloist Stephen Osborne; Jan 16
● BBC Symphony Orchestra and Chorus: conducted by Andrew Davis in works by Messiaen. With piano soloist Yvonne Loriod; Jan 17

EXHIBITION
Victoria and Albert Museum
Tel: 44-171-938 8500
Grinling Gibbons and the Art of Carving: drawings, carvings and religious reliefs are displayed alongside the Cosimo panel, commissioned by Charles II and the woodcarver's masterpiece; to Jan 31

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
La Traviata: by Verdi. Paul Daniel conducts a staging by Jonathan Miller; Jan 20

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art
Tel: 1-213-857 6000
www.lacma.org
Van Gogh's Van Goghs: Masterpieces from the Van Gogh Museum, Amsterdam. Display of 70 paintings on loan during the period of the Dutch museum's renovation, transferring to LA from Washington. Ranging across the artist's career, the show includes masterpieces such as Potato Eaters (1885) and Wheatfield with Crows (1890); from Jan 17 to May 16

MILAN

OPERA
La Scala
Tel: 39-02-88791
The Fiery Angel: by Prokofiev. Bruno Bartoletti conducts a staging by Giancarlo Cobelli, with Karen Huffstodt and Elmira Magomedova singing alternate performances as Renata; Jan 14

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Ivan Fischer in works by Stravinsky and Bartók, with violin soloist Ivan Fischer; Jan 14, 15
● Philharmonia Orchestra London: conducted by Christoph Eschenbach in works by Mozart, Prokofiev and Brahms. With piano soloist Tzimon Barto; Jan 17

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Lyonel Feininger (1871-1956): From Gelmeroda to Manhattan. First comprehensive retrospective of the German-American painter, who was forced to leave Germany during the 1930s and subsequently worked in New York; to Jan 24

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Lohengrin: by Wagner. Peter Schneider conducts, in a staging by Götz Friedrich. Cast includes Adrianne Pieczonka and Waltraud Meier; Jan 15, 19

NEW YORK

EXHIBITIONS
Brooklyn Museum of Art
Tel: 1-718-638 5000
Royal Persian Paintings: the Qajar epoch 1785-1925. Display of life-sized portrait paintings, manuscript illumination and decorative arts which were the specialities of this previously overlooked period of Iranian art history; to Jan 24

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Mary Cassatt: Drawings and Prints. Coinciding with a major retrospective at the Art Institute of Chicago, the Metropolitan Museum has organised an exhibition of most of its extensive collection of Cassatt's work; to Jan 24

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Die Fledermaus: by J. Strauss. Revival conducted by Patrick Summers. Cast includes Carol Vaness; Jan 14

PARIS

CONCERT
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Lorin Maazel in works by Weber, Debussy, Schubert and Ravel; Jan 14

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Victor Hugo, Photographs of Exile: selection of photographs produced in Jersey in the 1850s, by Hugo in collaboration with his sons; to Jan 24

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06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

FT INTERVIEW TONY BLAIR

Undivided loyalties

Richard Lambert, Brian Groom and **Andrew Parker** quiz the British prime minister about his plans for devolving power

Ask Tony Blair if the United Kingdom will break up – either because of his devolutionary policies, or as a result of irresistible historical forces – and he voices incredulity. He believes he is the saviour of the Union, not its destroyer.

"I am convinced you need a new relationship within the UK for the UK to survive," he says. "If you don't have that new partnership then that's what will start pulling apart the United Kingdom."

This is the year when devolution becomes a reality for one of Europe's most centralised states. Elections to the new Scottish parliament and Welsh assembly will take place on May 6. Responsibilities are due to be transferred to the Northern Ireland assembly in the spring.

Regions of England will get development agencies from April 1, overseen by indirectly elected chambers. And next year London will have a directly elected mayor and assembly.

Many worry that all this will let the genie of separatism out of the bottle. The prime minister retorts that what would really pull the country apart would be to resist calls for change, particularly in Scotland, leaving people to choose between an unacceptable status quo and "crazy" separatism.

In an interview, Mr Blair professes a deep personal commitment to constitutional change. "Devolution, decentralisation is central to my political philosophy. It's a central part of what New Labour is about.

"The driving force behind the idea of constitutional change is to strengthen the country and make it fit for the 21st century by modernising its institutions."

That includes not only devolution of power to Scotland, Wales, Northern Ireland, and to a lesser extent to English regions, but also reform of the House of Lords, and a change in the relationship between the individual and the state through a proposed Freedom of Information Bill and incorporation of the European Convention on Human Rights into UK law.

"This is the second age of democracy," he says. The first stage was the vote, getting the basic, decent standard delivered and pensions, housing and all the rest of it, but people want choice today, and people want freedom to do things differently at local level, to have better and more innovative ways of deciding their own priorities."

Mr Blair's programme is sometimes seen as lacking coherence – a criticism he rejects.

But in a forthcoming book*, the Constitution Unit, a London-based think tank, argues that devolution is a process, not a settlement. Devolving some powers will lead to demands for more autonomy, creating a political and legal dynamic that the government will not be able to rein back.

Mr Blair is cautious about the consequences of devolution. "It has been a big bang in the sense that we are doing a huge amount of constitutional change, and this is where we want to be. I can't speak for the future, but we have no plans to go further than we have."

About one thing, however, he is clear: "I don't believe that Scotland wants to break off from the UK at all." Scots may tell opinion pollsters they think Scotland will be independent within 15 years, but that, the prime minister believes, is because they keep being told so by the media.

"They know perfectly well that if Scotland left the UK the consequences in terms of jobs and business and influence for Scotland in the world would be disastrous. What they want is a partnership."

The Scottish Labour party, neck and neck with the pro-independence Scottish National party, has a fight on its hands in May's elections. Mr Blair claims the SNP will not do as well as people think, partly because their programme is "economically disastrous".

"In their heart of hearts people in Scotland know that Scotland is stronger for being with England and England is stronger for being with Scotland."

Nor does he believe that devolution in Scotland will set off an ugly wave of English nationalism. "If there are English nationalists who say it's a good idea to separate, we take them on in the same way that we take on Scottish nationalists. But the idea that you can't change the relationship between England and Scotland for the 21st century, without unleashing unacceptable forces, is absurd."

Labour has deferred referendums on elected regional assemblies in England, if they happen at all, until a second parliamentary term. Mr Blair worries that English regional assemblies might do little other than duplicate existing government bureaucracy, although he says he is keeping an open mind.

"It really depends on what people want in England," he says.

"I think it's possible over time that you carry on with the process of decentralisation, but it depends on going at the pace that people want. The bottom line has got to be: does it deliver a more efficient, more accountable government?"

The RDAs, he says, will be "powerful magnets for co-ordinating inward investment and developing industrial policy".

Many believe the main demand to emerge in England will be to narrow the public spending gap with Scotland, Wales and Northern Ireland, where spending is proportionately higher. There is complex formula for working out how much is spent in different areas of the UK and some ministers believe the government will eventually agree to the first reassessment of this for 20 years. Mr Blair, however, says there are valid reasons for maintaining the system of allocating cash. "I don't think there's great resentment at it."

If he is agnostic about regional assemblies, then Mr Blair is a true believer when it comes to elected mayors in the big cities. "In my judgment it would revitalise local government," he says. "The big cities have tremendous capability, they've got huge problems and they need a real political focus, and it can't all be done [by central government in London].

"Millions of people live in the inner city. They often live with poor schooling, high crime, low quality transport and an environment that doesn't encourage people to stay and raise families. To regenerate it you need it focusing on an individual who has a clear initiative and is going out to get either elected or booted out."

City councils outside London have been cool on the idea, but Mr Blair leaves little doubt that he expects them to happen. "There is demand, certainly from the people," he says – and he rejects the idea that they would conflict with regional assemblies. They co-exist in other European countries.

The Welsh assembly, with no tax-raising power and no right to pass primary legislation, is often seen as the weakest link in the devolution settlement. Mr Blair disputes this. "They are going to have a £7bn-odd ($11.8bn) budget to decide. In anybody's language that's pretty big potatoes," he says.

A key question is whether reform of the House of Lords can be used to bind the UK together, by introducing representatives from the devolved institutions and English regions. "I can see the case for it," says Mr Blair – but he will leave it to the royal commission that will examine reform.

It is sometimes claimed Mr Blair is less committed to devolution than his predecessor as Labour leader, the late John Smith – a "myth", he says. "I supported it in the 1970s, when it was quite fashionable in large parts of the Labour party to disagree with it."

The are close parallels, he says, between his dramatic reform of the Labour party and reform of the UK. "The best way to preserve and strengthen an institution is not always to keep it as it is, but to modernise it."

**Constitutional Futures, edited by Robert Hazell, will be published by Oxford University Press on February 4. £17.99.*

LETTERS TO THE EDITOR

Holders of building society nominee accounts missing out on windfalls

From Mr Douglas French.

Sir, So the Birmingham Midshires does not think it is "unfair" that Pibs (permanent interest bearing shares) investors get a full windfall if their account is held directly, but only a tiny fraction if it is held in a nominee account to which only one windfall is allotted ("Watchdog urged to probe 'unfair' windfall payments", January 12).

Why has the Birmingham Midshires adopted this approach? Not, I suggest, on grounds of fairness or unfairness but for administrative convenience. It does not know, and has not tried to find out, who the underlying account holders are.

This was the same posture adopted by other building societies when they converted, which denied proper entitlement to the sick and disabled whose accounts were in their carers' names.

The Building Societies (Distributions) Act, which I took through Parliament in 1996-97, put that injustice right, requiring windfalls to be allocated to each qualifying, underlying beneficiary of an account, rather than on the basis of one per trustee.

Should not the same principle be applied to nominee Pibs accounts? At the very least, converting societies should give underlying account holders of nominee accounts the opportunity to provide information on their holdings, and thereby qualify for a full windfall. The Building Societies Commission would certainly enjoy devising a workable formula.

Douglas French,
chairman 1995-97, All Party Building Societies Committee
231 Kennington Lane,
London SE11 5QU, UK

Nationality and questions of fairness

From Mr Jens Schneider.

Sir, Even if Germany is still the only European country to base its nationality law on "whoever your parents were", this does not make the principle inherently unfair. Arguably, it is by living and schooling or working in the country that a person becomes part of the nation. Only if the law then still denied the person the right to assume the nationality could one talk of unfairness.

Collecting signatures to deal with the issue of dual nationality is clearly wrong, as you rightly argue (Teutonic Turks, January 12). But the way German nationality is defined is not inherently wrong. It is a rather complex issue, and limiting the discussion to the odd comment about nationality law dating back to 1913 (with subsequent amendments) creates an unfair bias.

Jens Schneider,
22 Albion Avenue,
London N10 1AE, UK

Poland could be model for Russian recovery

From Mr Peter Allen.

Sir, I wish to join former Poland finance minister Grzegorz Kolodko (Letters, December 8) in urging the Russian government to consider Poland as a model for a reduction of its London Club debt.

The challenge facing Russia is how to begin rebuilding confidence. The first step is to establish an anchor for market debt valuation by opening a dialogue with the London Club for a permanent restructuring. This should incorporate market-based forgiveness.

It was Russia – not the banks – that excluded forgiveness from the 1997 restructuring of ex-Soviet debt at a time when "Brady Plan" forgiveness of 35 per cent to 50 per cent was the norm.

Thus far Russian authorities have proposed to cut 1999 London Club interest from US$1.2bn to $400m by skipping the obligation to pay 50 per cent of accruing interest on Principal Obligations (PRINS) in cash and instead meeting all PRIN interest with Interest Arrears Notes (IANs). While this would help the 1999 cash flow, it is not a long-term solution. Markets will soon grow worried over the huge build-up of debt entailed in an indeterminate interest capitalisation.

Russia has three basic options. The first is to restructure all Vnesh obligations. A Poland-style formula would cut future obligations by half and stretch them over 30 years. The second is to restructure PRINS only under Poland terms. This would produce nearly as much relief (80 per cent) as the first, and would leave "post-Soviet" IANs intact. The third is to eliminate the obligation to issue any more IANs for a portion of PRIN interest and to extend the years of "below-market" interest rates.

A formal request would start Russia down the road to recovery.

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PERSONAL VIEW JAMES A. BAKER III

Credibility ruined

The trial of Bill Clinton has seriously weakened the US president's stature on the world stage and America's ability to direct foreign policy

These are sad times for America. Our political crisis has diminished the institution of the presidency and has adversely affected US foreign policy. With the impeachment trial of Bill Clinton – only the second president in history and the first since Andrew Johnson's in 1868 – that crisis is reaching a climax.

Clinton: the lamest of lame ducks for the next two years AP

Whatever one's view is of the charges against the president, the spectacle of an American chief executive on public trial is deeply depressing for those who believe, as I do, that US leadership remains vital in the international arena. Whatever the outcome of the trial, America's global leadership role will have suffered. In the unlikely event that Mr Clinton is convicted, and thereby removed from office, Al Gore, the vice-president, will be forced to pick up the pieces of a shattered presidency. But even in the likely event that Mr Clinton is acquitted, he will limp into his last two years of office as the lamest of lame ducks, his personal reputation ruined and his political authority and credibility all but gone.

The crisis, now a year old, has already taken its toll on foreign policy. The idea that the scandal does not affect the conduct of foreign policy strains credulity. As a former White House chief of staff and secretary of state I have seen first-hand just how difficult it can sometimes be for America to lead globally, even in good times. To do so requires an undistracted president who can commit White House and presidential time, assets and attention exclusively to that end.

Mr Clinton is, by all accounts, a man of great energy, quick intelligence and remarkable ability to compartmentalise his life. But, since last January when the scandal first broke, he has clearly been unable to produce the requisite American leadership in international affairs. Given the political, legal and now constitutional problems he faces, that is understandable. There are only so many hours in a day and there is only so much stamina on which anyone can draw. Even someone as dogged as Richard Nixon became a near wreck in the weeks preceding his resignation.

Beyond its effect on the institution of the presidency and the president himself, the crisis has almost certainly contributed to a series of signal foreign policy setbacks. The administration was only able to gain the active military support of one ally – the UK – for the air strikes against Iraq and the anti-Saddam coalition so assiduously assembled by George Bush, the former president, has all but ceased to exist. Mr Clinton's recent trip to Israel and the occupied territories was singularly barren of results. Indeed, the Wye accords announced with great fanfare only weeks ago today stand on the brink of total failure. Just six months after the president's much-touted official visit to China, Beijing has moved ruthlessly against political dissidents, a clear signal that Beijing views the administration's position on human rights with indifference, if not contempt. And, perhaps most ominously of all, North Korea continues to develop nuclear weapons and the missiles to deliver them, final evidence of the bankruptcy of the administration's policy of appeasing Pyongyang.

> **Beyond its effect on the presidency the crisis has contributed to a series of foreign policy setbacks**

In the world of geopolitics where power, strength and credibility count for so much, it is sadly understandable that Mr Clinton's travails have an adverse effect on our relations with both allies and adversaries. After all, one of the charges against him is lying under oath, and he stands one Senate vote away from possible political extinction. His political clout, therefore, is much diminished and his personal credibility is in tatters. He is, in short, in a seriously weakened condition from the standpoint of international politics, notwithstanding his very healthy job approval ratings. That weakness can only dishearten our friends and embolden our enemies.

But the greatest impact of the crisis on US foreign policy may not be abroad but in the US itself. The successful conduct of American foreign policy has traditionally depended upon the president's ability to forge a domestic consensus on its behalf. Only the president can do this. It cannot be delegated to a foreign policy team, no matter how talented. This has been true of presidents from Harry Truman to Mr Bush. And this consensus-building, in turn, rests upon the president's ability to generate confidence and inspire trust, not just among his own supporters but with political opponents and the public at large. The current crisis has clearly eroded both that confidence and that trust.

Disagreement is one thing; distrust another. The latter can be deadly to a truly bipartisan foreign policy. Whatever the motives behind the strike against Iraq (and I did not at the time and do not now question those motives), the very fact that they were so publicly and pointedly called into question suggests the extent to which Mr Clinton has lost that most precious of presidential assets: credibility.

The US and, indeed, the world can take some comfort in the fact that this scandal has occurred during a period of relative calm in international affairs. With the cold war over, the US confronts no major challenge to its national security or its unique position of global pre-eminence. But this is cold comfort indeed. For, if there is one lesson to be learned from the history of this century it is the imperative of US leadership from that position of pre-eminence. That imperative – in realms as disparate as free trade in the Americas, the Middle East peace process, or stability in north-east Asia – remains as strong as ever. And, as always, American leadership means presidential leadership. The current crisis – played out before an audience of literally billions around the world – can only have seriously diminished, if not destroyed, any chances for that leadership for the next two years.

The author was the 61st Secretary of State

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Thursday January 14 1999

Dealing with the inevitable

The gamble over Brazil has failed. In abandoning the narrow band of its currency peg, the government has been forced into a devaluation. This must damage its credibility severely. But it is dreadful, too, for the reputations of the International Monetary Fund and the US Treasury. It was they who organised the international rescue package of $41.5bn, gambling on what many thought an overvalued currency. The only light in the gloom is that Brazil has devalued before wasting all its reserves.

The IMF programme focused on fiscal adjustment. The hope was that success on the fiscal front would allow interest rates to fall from unsustainably high levels that were contributing to the fiscal deficit. Yet, even though 70 per cent of the fiscal package passed congress, Brazil has suffered a steady drip of bad news. This started with the government's congressional defeat over pension reform. Then, last week, the state of Minas Gerais defaulted on its federal government loans. More than $2.5bn has left Brazil this month.

If domestic politics and the inadequacies of the fiscal programme have prevented the restoration of confidence, a devaluation of about 9 per cent will not do the trick. Such a depreciation is bound to weaken confidence. It will not allow lower interest rates. It will not improve the fiscal position. And it will do virtually nothing for growth.

Yet it would have been insane for the government to waste its reserves in a futile defence of the currency. Now at least it retains about $36bn in reserves. It has also drawn $9bn of the international support package and has access to more. Thus Brazil is, unlike the crisis-hit Asian countries, still able to defend its currency. But it will be best able to do so from a somewhat undervalued position, which means a further significant fall. The only alternatives are still tighter capital controls or open-ended support from the Group of Seven leading industrial countries.

Brazil should be able to survive even quite a big devaluation. It does not have the high levels of short-term foreign debt that made the Asian devaluations so destructive. But much of Brazil's domestic government debt is short term. The government must therefore ensure that the fiscal programme goes through intact. It will also need a credible counter-inflationary anchor, to limit the duration of damagingly high interest rates.

The failure of the gamble on Brazil's exchange-rate regime is unavoidably damaging – and not only to Brazil. The challenge is to minimise these costs. That can only be done by accepting a significant devaluation, while using available resources to defend a more credible floor. All need not be lost, provided Brazil remains committed to fiscal stabilisation and low inflation.

Misty vision

Tony Blair insists that a big vision lies behind the disparate parts of his programme of devolution and constitutional change. He talks of a "second age of democracy", creating freedom of choice and allowing people to find better ways of deciding their own priorities. Such visions, however, are not the same as practical coherence. Two large questions must be addressed if his reforms are to succeed.

The first is whether his government is as keen to devolve power in practice as it is in theory. It has, for instance, kept many of the previous government's tight controls over English local government, and in education it is determinedly imposing its will. Relations with the devolved institutions in Scotland, Wales and Northern Ireland will have to be handled with respect if the project is not to be marred by continual conflict.

The second is that large parts of the picture have yet to emerge – principally those involving England, which accounts for 83 per cent of the UK's population. Regional development agencies and indirectly elected regional chambers are a start, but there appears to be no considered idea of where the process will end up.

The result is confusion. Mr Blair is keen on directly elected mayors in the big cities, but it is unclear when or where they might emerge. He is equivocal about elected regional assemblies, which may not happen at all unless there is clear popular demand. Into this vacuum flow other ideas such as an English parliament, espoused by many Conservatives. William Hague, the Tory leader, has drawn back from this, fearing it would make the UK parliament irrelevant, but it shows how the government risks losing control of the debate if it lacks a strategy.

There are merits in the argument that English regions should not be given an extra tier of government if people do not want it. It would be absurd to create assemblies for which there was no demand. But the government will soon have to make parts of the jigsaw fit together.

A reformed House of Lords could create the opportunity to bind the UK together by including representatives from the devolved institutions and English regions, but it is impossible for the royal commission to address this seriously without answering the English question. Representation could not easily be built on the present ramshackle local government system. If local authorities, however, were given the financial freedom to become more democratically accountable bodies, it might be possible to build credible regional structures upon them. It all comes back to how far Mr Blair really wants to devolve power.

Malaysian mess

Yesterday's decision by the judge in the Anwar Ibrahim case to amend the charges facing Malaysia's former finance minister risks turning his trial into a farce. Coupled with the cabinet changes announced at the weekend, it suggests that the ground under Prime Minister Mahathir Mohamad is softening.

The charges faced by Mr Anwar are serious. Although sodomy is not an offence in many Western jurisdictions, it is a crime in Malaysia. Abuse of one's position to interfere with police investigations is a crime in most countries. These charges should not have been laid lightly. Given the political background to the case, it was especially important that the court procedures be above reproach.

By ruling that the prosecution no longer has to prove sexual misconduct in order to obtain a conviction on the corruption charges, the judge has moved the goal posts in mid-play, and only after the character of the defendant has been smeared by innuendo. Mr Anwar's supporters are now arguing that the prosecution was never in possession of evidence of sexual misconduct that would stand up in court.

The positive aspect of this is the implicit recognition that the Malaysian courts do distinguish between hearsay and real evidence. However, with the prosecution in disarray, it may now be difficult to obtain a convincing conviction on the corruption charges. The effort should not continue unless the prosecution can quickly show incontrovertible evidence of corruption.

Even though the charges themselves have nothing to do with politics, the outcome of the case will have profound political consequences. A credible conviction would vindicate Dr Mahathir's decision to sack Mr Anwar from his government. A less than credible conviction or an acquittal would undermine his authority.

The latest twist in the trial suggests he must at least seriously consider that possibility. It comes just after a cabinet reshuffle which also produced evidence of weakness. Dr Mahathir sought to consolidate his position without introducing new blood and while carefully avoiding divisive elections within his own party.

It is not in Malaysia's interest or in that of its recession-struck neighbours that this uncertainty should continue much longer. The best outcome would be a speedy end to the trial followed by an acceleration of the general elections which are due before April next year. The big test in those elections will be whether the ruling coalition can win the two thirds majority it has held since 1969. If Dr Mahathir fails in that, it will be a clear sign to everybody that the time has come for him to step down.

Brazil goes through the floor

Stephen Fidler and **Geoff Dyer** look at the implications of Brazil's currency depreciation and explain why it has spooked the markets

Brazil's decision to allow its currency to slip by 9 per cent has sent the world's financial markets into a tailspin.

Yesterday, the Dow Jones Industrial Average fell more than 250 points, before recovering. The biggest European markets ended the day between 3 and 5 per cent down, with Spain, the country most exposed to Brazil, plummeting nearly 9 per cent. With investors looking for safe havens, government bonds in both the US and Europe rose markedly. It was reminiscent of (though less extreme than) the market mayhem that followed Russia's devaluation and default last August.

Why would a relatively insignificant event, such as a modest devaluation produce such a reaction? It is not just that markets often over-react. Nor it is only that Brazil is a country in which many investors have a huge amount at stake, though that was certainly important. For example, foreign carmakers including Fiat, General Motors, Ford and Volkswagen have invested $20bn over the past four years in production facilities. Telefonica of Spain spent $5bn last year to become the single biggest foreign investor in the privatisation of Brazil's former state-run telecommunication system. And foreign banks, including HSBC and Lloyds, have invested heavily both in Brazilian banks and in lending to corporate clients locally.

But to understand why the markets are so nervous, one needs to examine the background to the decision to let the currency fall. This helps explain why investors fear that this is the latest example of an economy suffering whiplash from big and sudden financial flows. Many worry that yesterday's depreciation may not be the start of a smooth process of adjustment but, rather, risks turning into an uncontrolled currency crash – as has happened so often in the past 18 months.

Even with the backing of a $41bn financial package led by the International Monetary Fund, and arranged only in November, the Brazilian government has been unable to prevent a devaluation that it sorely wanted to avoid. Many people argued that if this package was to work, it had to alter the markets' perception of Brazilian risk quickly, in the first few weeks. But interest rates did not fall as much as much as was hoped for. And Brazilian policymakers are still caught in a vicious circle that has become familiar in the years since Mexico's disastrous December 1994 devaluation.

Years of very high inflation meant that Brazilians had no confidence in their government's fiscal and monetary policy. In an attempt to shock the public into believing the anti-inflation effort begun in 1993 was credible, the government pegged the value of the exchange rate to the dollar.

However, inflation did not halt after the exchange rate was pegged – and for some time Brazilian prices continued to rise faster than the slow rate of depreciation the currency was allowed against the dollar.

This "inertial inflation" pushed up prices throughout the Brazilian economy compared with the rest of the world, hobbling exporters and encouraging cheap imports. These are the ingredients of a traditional balance of payments crisis, but they were not really those that tipped the Brazilian currency over the edge. (In fact, Brazil's trade position improved last year.)

Brazil's main problem lay not in the flow of goods and services, but in the flow of capital – or more precisely in the potential for sharp stock adjustments in the capital markets. As such, it is more typical of the currency crises that have become familiar in the 1990s.

There was a lack of confidence in the exchange rate because of the perception that the Real was overvalued. That lack of confidence was reflected in high interest rates – as lenders to the government demanded a high risk premium. These high interest rates sharply increased the cost of financing the government's domestic debt – which has now risen to $350bn. This increased fiscal costs, expanded the fiscal deficit and called into question the anti-inflation strategy, in turn justifying the lack of confidence in the exchange rate.

The question today is whether a devaluation of about 9 per cent will alter this calculation – when almost every attempt to effect an orderly devaluation since Mexico's in 1994 has ended in financial crisis. One exception – Colombia – offers little consolation, since interest rates remain higher than they were before the devaluation late last year took place.

Indeed, just as the roots of this new breed of financial crisis are not those of traditional balance of payments crises, neither are the effects of devaluation. A traditional devaluation should allow the adjustment of relative prices between tradable and non-tradable goods, improving the balance of payments. With pressure off the currency, interest rates should fall, allowing an economic recovery.

The question is whether a devaluation of about 9 per cent will restore confidence

This has not happened anywhere since Mexico in 1994, not in Asia nor in Russia. The difference appears to be mainly because of the shattering effects devaluations have on confidence. In Asia, domestic companies were unable to take advantage of a much more competitive exchange rate because the devaluations had devastated their corporate structures, leaving many insolvent.

It does have similarities to the Mexican case, says Albert Fishlow, a senior fellow at the Council on Foreign Relations in New York. In December 1994, 21 days into the new government of President Ernesto Zedillo, his administration attempted a 15 per cent devaluation. Within a few hours, he had to abandon the policy because he did not have enough foreign reserves to defend the new rate. Mr Zedillo's authority has never fully recovered. It is an ominous parallel for the newly re-elected Mr Cardoso, just 13 days into his second term. "I didn't get elected to be the manager of the crisis, I was elected to overcome the crisis," he said in his inauguration speech on New Year's Day.

His success in defending the new currency band will be the key to his political viability. Without it, the government's anti-inflation strategy will be undermined, with potentially devastating effects on the president's popularity and power. And as Mr Fishlow points out, Mr Cardoso has more to lose domestically than his Mexican counterpart.

Mr Zedillo was locked into a policy of open markets by the North American Free Trade Agreement. Brazil is not a member. Moreover, unlike in Brazil, most of state enterprise in Mexico had already been privatised. In Brazil, the continuation of policies directed towards keeping the economy open and the market functioning will be called into question by Mr Cardoso's political weakness.

But if Brazil does follow the Mexican, Asian and Russian road, the ramifications spread beyond Brazil, as the international financial markets were suggesting yesterday.

First, there are the consequences of financial contagion, a still poorly understood phenomenon that appears to operate in three main ways:

- Through economic linkages. These linkages can be through trade or through bank and other lending.
- Through pure contagion: where economic actors react because the situation in a crisis-hit country looks like the situation in another.
- Through portfolio readjustment by international investors and speculators.

The most obvious candidates to suffer from contagion are Brazil's neighbours, such as Argentina, Chile and other Latin American economies associated in investors' minds with Brazil. There is also the possibility of a backwash into Asia, with implications for Hong Kong and China. Hong Kong's Hang Seng index fell 4 per cent yesterday. "If the new band proves unsustainable, I think there could be a speculative attack against the Hong Kong," says Mr Fishlow.

Banks in the US and Europe also have some exposure. Spain's stock market suffered more than others because of the stake many Spanish banks and companies have in Latin America.

The second set of potential consequences are broader. They concern the shape of the global economy and the rules under which it will be run.

For much of the 1990s, the US had been successful in encouraging the development of a global economy of free capital and trade flows. This world view had already been challenged in parts of Asia and in Russia. If Brazil is added to the list of those countries that see the risks of engaging with the global economy as greater than the risks of partially withdrawing, then the pieces of the global economy could begin to disintegrate.

That could reverberate to hit the US, the main bastion of stability of the global economy. There, the sense of economic well-being has been encouraged by a stock market that seems to have been discounting almost no bad news. Yet even with the domestic economy going well, the patience of US politicians with the consequences of globalisation appears to be fraying at the edges – witness harsh language between the US and Japan in talks this week.

Asia's financial crisis had already prompted calls for a reorganisation of the rules under which the world financial system works. Those calls for a new "global financial architecture" have animated some important figures – including US President Bill Clinton.

But Brazil's situation emphasises that even the resources of a newly strengthened IMF – its credibility further dented by yesterday's events – have not been sufficient to avert an emergency. Even if the world knows theoretically how to handle this new type of financial crisis – a conclusion that must anyway remain in doubt – the tools do not appear to be available to deal with it.

OBSERVER

Milken is cooking again

Michael Milken, the junked junk bond king, is back. Despite two years in jail, a $1bn fine and a lifetime ban from the securities industry, he's causing almost as big a stir as he did back in the 1980s.

His rebranding is being helped by some hefty philanthropy. He spends huge amounts on cancer research, has had a Los Angeles high school named after him and has hired Donald Straszheim, Merrill Lynch's former chief economist, to put his Milken think-tank on the global map. He's written his own cookbook – *A Taste for Living* – with tips on what to eat to survive cancer.

Now, he's even re-starting his famous annual conferences, with Germany's Helmut Kohl and Russia's Mikhail Gorbachev invited to speak at the next one in March. The event will be co-sponsored by Milken's old chums at Jefferies & Co, the Beverly Hills broker which used to buy big blocks of shares for predators like T. Boone Pickens, Ivan Boesky and Irwin Jacobs. Sadly, none of them looks like turning up; but Milken has persuaded five Nobel prize-winning economists to chew the cud on the world economy.

Watch out for contributions from professors Merton Miller and Myron Scholes, two of the rocket scientists involved with Long Term Capital Management, the former high-flying hedge fund. If only Milken hadn't been banned from Wall Street, he might have been able to offer them more than a mere seat on his podium.

Boldly Joe

The truth is out there. And so is Joe Firmage, founder of Internet consultancy USWeb/CKS, who's resigned as chief strategist to devote himself to unidentified flying objects.

Nasdaq-listed USWeb/CKS says its philosophy is to combine "the right brain and left brain skill sets of marketing and technology". But it seems the publicity attracted by Firmage's extra-terrestrial hang-up has been threatening to damage the company's reputation.

So like Mulder, the smouldering hero of cult TV series *The X Files*, Firmage is prepared to jeopardise his career for the sake of his other-wordly beliefs. He's even edited and co-authored an internet book, *The Truth*, in which he tells fellow ufologists how he took a "nine-minute snooze" one morning after a gruelling night spent preparing USWeb's flotation.

"A remarkable being, clothed in brilliant white light, appeared hovering over my bed in my room." Perhaps he just needs a holiday – Observer hears anywhere in Alpha Centauri is nice and relaxing around this time of year.

In his sights

Baltasar Garzón, the Spanish investigating magistrate who's trying to put General Augusto Pinochet behind bars, will get closer than ever to his prey next week.

The relentless judge has been wanting to interrogate the former Chilean president since pinning him down in London last October. Although still unable to do so, he's due in London for the Law Lords' hearing starting on Monday – the second try by the UK's upper house to decide if the general gets immunity.

Garzón has obtained permission from the General Judiciary Council, the governing body of Spanish judges, to attend the hearing. He's going at the request of the UK's Crown Prosecution Service, which is representing the Spanish authorities in the case.

The trip will also give Garzón a chance to try out his English – in the past he's taken private language lessons. Unfortunately, what with the Pinochet business, he's been so busy that he had to give the lessons up.

Undiplomatic

Most diplomats retire gracefully. But not Sir David Gore-Booth, who's courted controversy wherever he's been in a long career that ended last month with his premature retirement.

Gore-Booth, 55, whose last post was as high commissioner in New Delhi, decided to swap his feathered hat for corporate life after failing to end his career with one of the plum overseas posts. So his valedictory telegram, usually a benign account of life as Queen Elizabeth's emissary, turned out to be a lot spicier than most. He took the opportunity to pour scorn on Foreign Office ministers for failing to defend their civil servants and derided those who accused the diplomatic service of being manned by the plummy-voiced upper-classes.

This week, he was in the spotlight again when he was questioned by a committee of MPs over the sacking of a British Aerospace employee in Saudi Arabia when GoreBooth was ambassador there and in which he was alleged to have been involved.

One MP was particularly incensed by the language Sir David used in a letter to British Aerospace. A passing reference to "company wives" was held up as just the sort of contemptuous, class-ridden remark to be expected of diplomats. But then the MP spoiled it all by reminding the committee that British foreign office wives used to be called "diplomatic bags". As for Gore-Booth himself, he managed to keep a perfectly trained straight face.

The Financial Times

100 years ago

American Success
Americans are naturally elated at their recent success in obtaining contracts for steel rails abroad, and more especially for electrical engines and rolling stock for Britain. One of their latest achievements is an order for 20 freight engines for the Midland Railway. This is not the first time that England has imported engines from America. About 60 years ago several engines were built in Philadelphia for Britain's railways, but since that date none have come east across the Atlantic.

50 years ago

Egypt's Oil Find
Cairo, Jan. 13. The Egyptian Minister of Commerce, Mamdouh Riad Bey, to-day confirmed press reports that a new oil well estimated to produce 5,000 tons of crude oil a day had been discovered at Assul in the Sinai Desert, 25 miles south of Suez. "This new well is a link in a chain of wells beginning at Sydr," he said. The new discovery means that Egypt may become an oil exporter from being an importer.

FINANCIAL TIMES

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THE LEX COLUMN

Real crisis

Wall Street's rebound after initial disappointment at Brazil's devaluation is truly a wonder to behold. But it should not divert attention from the fact that another large crack has opened in the global financial system.

The real problem with yesterday's 8 per cent devaluation is that it falls between two stools. The drop is not big enough to turn around Brazil's $30bn current account deficit; but it is big enough to reinforce suspicions among Brazilian and foreign investors that the Real is on the skids. Hence, further devaluation is a very real possibility. And, if investors take that view, capital flight could reach torrential proportions – turning devaluation into a self-fulfilling prophecy.

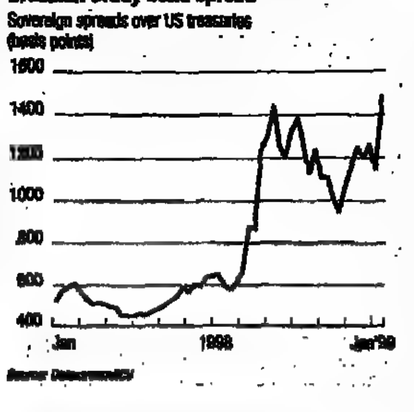
Such thinking exposes the weaknesses of the International Monetary Fund's $41.5bn rescue package. Add that cash to Brazil's current reserves of something over $30bn and there is still not enough money to withstand a serious run on the currency. But the way policy is now framed, more billions will probably be wasted trying to prop up the Real.

The other policy instrument in the current framework is to try to bribe people to keep their money in Brazil with high interest rates. But there is an element of bluff here. Rates of about 40 per cent are unsustainable: not only will they drive the economy deeper into recession but they threaten to bankrupt the highly-indebted government.

With continuing support from the IMF and the US, Brazil may just muddle its way through. Otherwise, the range of policy options is unpalatable: further devaluation, capital controls, a debt moratorium, printing cash or some poisonous cocktail combining several of these.

For the rest of the world, this is worrying. As Russia's crisis showed, financial contagion can work in unexpected ways. Moreover, the difference with Brazil is that it may be close enough to the US to shake overvalued Wall Street out of its complacency.

Brazilian Brady bond spread
Sovereign spreads over US treasuries (basis points)



Source: Datastream/ICV

Lucent/Ascend

So Lucent Technologies and Ascend Communications are getting spliced. The industrial logic is strong. Lucent's enhanced ability to build broadband data, voice and video networks should make it the supplier of choice for the world's telecommunications companies.

Even so, the $19.3bn price tag, nearly nine times Ascend's estimated 1999 revenues, looks expensive. Lucent is paying a premium of nearly $4bn, but expects few cost savings. The fact that it is issuing its own highly-rated stock helps. But even giving the group full credit for forecast revenue gain, worth 2-4 per cent of earnings (or roughly $200m), Lucent's first-year return on investment will be only around 3 per cent.

Nevertheless, the deal will put more pressure on Europe's big telecoms equipment suppliers. Alcatel, Siemens and Ericsson rely on US partners for whizzy new products and technology – Alcatel allied itself with Ascend just four months ago. With Bay Networks and now Ascend disappearing into the maws of Northern Telecom and Lucent, the Europeans may be forced into expensive transatlantic acquisitions to secure their sources of supply.

BASF

It hardly counts as a trickle, but now that BASF is the second German company to launch a share buy-back, the issue should be firmly on the corporate agenda.

BASF deserves credit for making the move. But plans to buy up to 5 per cent of the outstanding shares amounts to a dip in the water rather than a big splash. BASF, after all, has net cash of close to DM1.8bn (€950m) which would be nearly enough to fund the entire buy-back. Clearly, the balance sheet will need further tightening if this chemicals cash machine is serious about reducing its cost of capital rather than just providing a one-off boost to earnings per share. There is the prospect of a more aggressive buy-back, once BASF and its investors have got comfortable with the whole idea. And a higher level of gearing should happen anyway because BASF looks serious about making acquisitions. As one of the more efficient European chemicals companies, it is now in a good position to pick up assets on the cheap. Meanwhile, investors in Germany should be checking whether their companies are being as shareholder-friendly as BASF.

European defence

After a slow start to the year, tortuous negotiations to restructure Europe's defence industry have resumed in earnest. But not exactly where they left off, it appears. Talks between British Aerospace and Germany's DaimlerChrysler Aerospace (Dasa), so successfully disrupted by General Electric Company's suggestion of a BAe/Marconi merger, are now fizzling out. Since BAe has apparently even refused Dasa further meetings, restoring cosy relations looks difficult.

Does this mean a BAe/Marconi deal is imminent? GEC's Lord Simpson is certainly holding BAe's toes to the fire with an ultimatum that it reach an agreement by the end of the week. Since GEC can be confident of the affections of fellow defence electronics firm, Thomson-CSF of France, this is not a threat the British platform manufacturer can safely ignore – all the more so since a thoroughly cheesed-off Dasa, with the backing of Gerhard Schröder, the German chancellor, has started to pursue France's Aerospatiale.

The fall-out from BAe/GEC's contemplation of a "UK first" deal at the expense of moves towards the European aerospace and defence company that governments desire is becoming evident. But things have not yet deteriorated beyond salvation. The best deals, which match companies making the same products, are still viable. Although BAe/Dasa may be looking a little sickly, shareholders should hope it soon regains the live status of Marconi/Thomson.

EU parliament in crisis over threat to sack Commission

Talks continue as divisions open up in two main political groups

By Neil Buckley and Quentin Peel in Strasbourg

Frantic efforts were under way at the European Parliament last night to head off a vote to sack the 20-member European Commission after Jacques Santer, its president, earlier threatened to resign.

Deep divisions over the fate of the Commission have opened up in the two main political groups of left and right, as negotiations continued to broker a compromise.

The parliament must vote today on a resolution which seeks to force the resignation of two individual commissioners for mismanagement of their departments, before deciding on a full motion of censure of the entire commission. If passed by a two-thirds majority - still seen as unlikely - that motion would force the commission to quit.

The confrontation between two of the EU's central institutions has turned into the biggest political crisis of recent years, only a fortnight after the launch of the European single currency. Mr Santer made his threat to take personal responsibility, and resign before the vote, at a dinner with fellow Christian Democrats and conservatives on Tuesday night.

He rejected demands from German Christian Democrats that two commissioners - Manuel Marin of Spain, and Edith Cresson of France - be asked to resign.

German groups on both left and right of the parliament, making up the largest national contingent, were adamant last night that they would vote for censure, in spite of efforts by Gerhard Schröder, the chancellor, to persuade them not to.

But up to 100 members of the Christian Democrat group, mainly from southern member states of the EU, were said to be hesitating to call for individual resignations.

The 214-member Socialist group, the largest in the parliament, has said it will vote for censure if the demand for the resignation of Mr Marin and Mrs Cresson, both socialists, wins a majority. That could in turn ensure a simple majority for the censure motion, although it would still probably lack the two-thirds needed to be effective.

All resolutions before the parliament are highly critical of the Commission. The Socialists, while not naming individuals, have attacked the body's "belated recognition of the crisis facing it regarding the financial management of the Community budget, and its lack of transparency and accountability".

They called on the Commission to pursue its investigations into suspected cases of fraud in several departments, and insisted that if individual commissioners are found responsible of mismanagement, they should be hauled before the European Court of Justice.

Hopes for a possible compromise centre on a promise by Mr Santer to set up a committee of "wise men" to review all financial and personnel controls in the Commission.

Santer's misjudgement, Page 3
Editorial Comment, Page 13

France launches campaign to end oil embargo against Iraq

By Robert Graham in Paris, David Gardner in London and Michael Littlejohns in New York

France yesterday launched a diplomatic offensive to convince the United Nations Security Council to abandon the oil embargo against Iraq in favour of a more easily enforceable system of monitoring and sanctions.

The French initiative coincided with a shift in approach by Iraq, where a government official said: "Iraq sees a need for a balanced dialogue ... to find practical solutions to the situation." In the past week Baghdad has tried to defy the US and UK-imposed "no-fly" zones in the north and south of Iraq and called for the overthrow of pro-western Arab rulers.

Kofi Annan, UN secretary-general, welcomed the French proposals as "a first step" in new efforts to resolve the crisis created by president Saddam Hussein's refusal to co-operate with Unscom, the UN inspectors mandated to destroy Iraq's weapons of mass destruction. US jets yesterday attacked missile defences in northern Iraq for the third day running, in the worst incident since last month's Operation Desert Fox, during which US and British forces in the Gulf carried out a four-day bombing blitz on Iraq.

It is understood that Iraq has not been sounded out in advance on the French ideas, which were met with caution yesterday by British officials but were broadly supported by Russia when Hubert Védrine, the French foreign minister, discussed them at length this week in Moscow.

French diplomats describe their proposals simply as a "contribution" to get round the deadlock caused by last month's bombing and Baghdad's defiance of Unscom.

France hopes to persuade Washington – and to a lesser extent London – that the Unscom mission can no longer operate in the wake of December's US-led attacks on strategic Iraqi targets. In so doing the French insist they are not rewarding Mr Saddam. They say an essential part of any new approach is to frame a more effective system of monitoring that ensures Baghdad does not destabilise the region.

The first proposal is that the existing monitoring commission be "renewed". This is shorthand for ridding the commission of any suggestion that it is purely doing US bidding or spying to aid the overthrow of Mr Saddam. Paris also believes the current methods of controlling the import of "dual use" equipment into Iraq should be reassessed and strengthened.

The second is to scrap the oil embargo in place since the 1990-91 Gulf war. French diplomats have long said the limited Iraqi oil sales were insufficient to satisfy the essential foodstuffs and medical needs of the population. They now argue the embargo is also counter-productive and encourages large-scale contraband, notably with Turkey but also with Syria, Iran and Dubai.

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Hiroshi Okuda, Toyota president, unveils the company's new hatchback, to be called the Vitz in Japan, and the Yaris in Europe. Page 17

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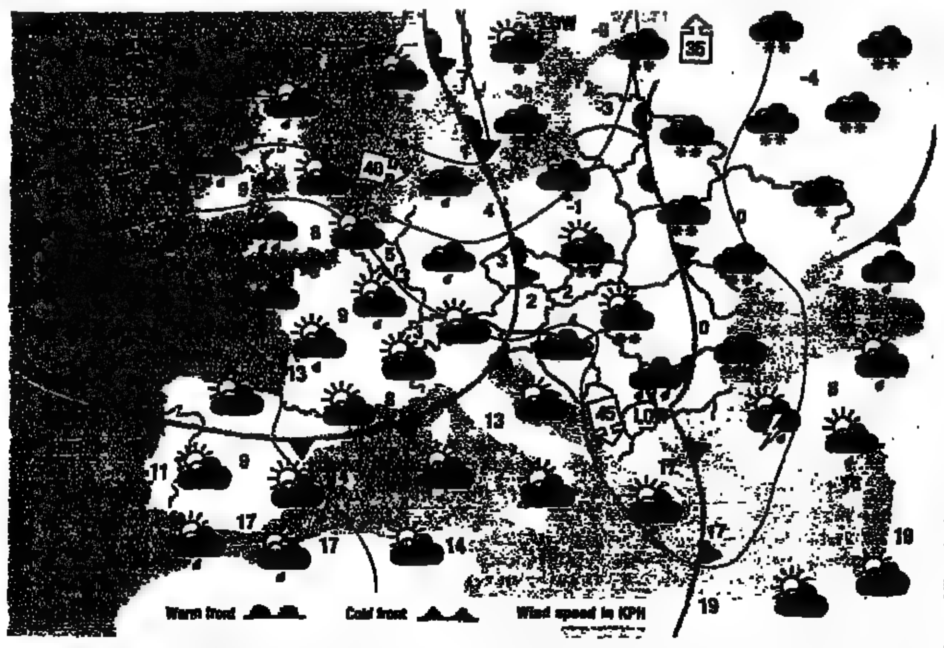
FT WEATHER GUIDE

Europe today

North-western Europe, including Germany and Denmark, will stay unsettled and windy with squally showers. Eastern Europe and Scandinavia will be very cold with snow. A band of rain, sleet and snow will move across central Europe. Romania, Bulgaria and the Balkans will have heavy rain. Farther south into Greece and Turkey, there will be some thunderstorms. The western Mediterranean will be mainly dry with sunshine, although there will be showers over southern Spain.

Five-day forecast

North-western areas will stay unsettled and windy with bands of rain through the weekend, but it will become milder. Central Europe will be more settled on Friday before more rain pushes in from the north-west on Saturday and Sunday. Most of the Mediterranean will be settled. Scandinavia will have more snow.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	24
Accra	Fair	32
Algiers	Fair	17
Amsterdam	Cloudy	0
Athens	Showers	15
Atlanta	Rain	16
B. Aires	Fair	26
B.ham	Fair	7
Bangkok	Fair	30
Barcelona	Fair	10
Beijing	Sun	-1
Belfast	Rain	6
Belgrade	Shower	7
Berlin	Sleet	4
Bermuda	Fair	23
Bogota	Fair	19
Bombay	Sun	31
Brussels	Cloudy	5
Budapest	Fair	4
C.hagen	Sleet	1
Cairo	Fair	19
Caracas	Fair	26
Cardiff	Shower	8
Casablanca	Fair	16
Chicago	Snow	-7
Cologne	Rain	5
Dakar	Fair	23
Dallas	Sun	13
Delhi	Fair	17
Dubai	Fair	25
Dublin	Shower	7
Dubrovnik	Cloudy	11
Edinburgh	Shower	4
Faro	Fair	15
Frankfurt	Rain	6
Geneva	Shower	3
Gibraltar	Fair	16
Glasgow	Rain	5
Hamburg	Rain	3
Helsinki	Snow	-9
Hong Kong	Rain	14
Honolulu	Sun	27
Istanbul	Shower	14
Jakarta	Shower	30
Jersey	Cloudy	10
Johannesburg	Fair	28
Karachi	Sun	26
Kuwait	Fair	20
L. Angeles	Fair	24
Las Palmas	Fair	18
Lima	Fair	25
Lisbon	Fair	11
London	Fair	8
Lux.bourg	Sleet	3
Lyon	Shower	4
Madeira	Fair	18
Madrid	Fair	9
Majorca	Fair	14
Malta	Fair	13
Manchester	Shower	7
Manila	Shower	29
Melbourne	Sun	28
Mexico City	Fair	21
Miami	Shower	26
Milan	Fair	6
Montreal	Snow	-16
Moscow	Cloudy	-4
Munich	Rain	5
Nairobi	Fair	28
Naples	Sun	13
Nassau	Fair	26
New York	Snow	-3
Nice	Sun	12
Nicosia	Shower	18
Oslo	Snow	-7
Paris	Shower	9
Perth	Sun	27
Prague	Sleet	3
Rangoon	Sun	33
Reykjavik	Snow	-2
Rio	Fair	29
Rome	Sun	13
S. Frsco	Fair	14
Seoul	Fair	0
Singapore	Rain	30
Stockholm	Snow	-4
Strasbourg	Rain	4
Sydney	Cloudy	24
Tangier	Fair	16
Tel Aviv	Fair	19
Tokyo	Fair	8
Toronto	Snow	-9
Vancouver	Rain	14
Venice	Fair	5
Vienna	Sleet	2
Warsaw	Snow	-1
Washington	Sleet	1
Wellington	Shower	21
Winnipeg	Cloudy	-14
Zurich	Rain	5

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FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1999 THURSDAY JANUARY 14 1999 Week 2

INSIDE

COMPANIES IN THIS ISSUE

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MARKET STATISTICS

GEC SETS END OF WEEK DEADLINE TO BID FOR DEFENCE ELECTRONICS ARM AS OTHER COMPANIES SIGNAL INTEREST

BAe given ultimatum over Marconi

By Alexander Nicoll and Jo Johnson

General Electric Company of the UK has told British Aerospace it must come up with acceptable terms by the end of this week if it wants to buy GEC's Marconi defence electronics arm.

According to industry executives, the ultimatum was issued as negotiations between the two companies on a "UK-first" approach to consolidation of Europe's defence industry provoked French and German companies into discussing bilateral links.

The developments seemed to signal that months of negotiations involving half a dozen European companies, encouraged by governments that want to see rationalisation of weapons makers, could be coming to the boil.

The companies declined to comment.

BAe is interested in acquiring Marconi – thought to be worth about £8bn – as part of its effort to build an integrated aerospace and defence company in Europe.

However, its talks with GEC have upset DaimlerChrysler Aerospace (Dasa), which is close to agreeing merger terms with BAe but wants the deal to go through before any accord with GEC. It is worried that Germany's aerospace industry might appear to be swallowed by a bigger UK company.

The German government is taking a close interest in the fate of Dasa, and France is thought to see the BAe/GEC talks as an opportunity to renew discussions with Germany about deals involving Dasa – which, in turn, appears keen to show it has other options than a BAe deal.

Gerhard Schröder, the German chancellor, is understood to have met Jean-Luc Lagardère, who heads the Lagardere group, whose Matra defence arm is shortly to merge with state-owned Aerospatiale.

Manfred Bischoff, Dasa chief executive, is meeting French companies, including Lagardère and Thomson-CSF, the defence electronics company.

GEC is seeking to force the pace with BAe partly because its separate discussions on a merger between Marconi and Thomson-CSF are quite far advanced, although valuations and management issues still have to be agreed.

In those talks, Denis Ranqué, the Thomson chairman, is understood to be arguing for a "balanced" deal giving fair representation to French interests in a merged company, though it is not arguing for an exact 50/50 split. Thomson-CSF's share price gives it a valuation of about €5.5bn. ($6.54bn)

GEC is thought to be prepared to inject debt into Marconi to allow balanced ownership of the new entity, which could then be spun off as an independent defence electronics company. A strong UK-dominated management team is also seen as essential if savings worth some £500m annually are to be achieved.

BAe and Thomson are believed to be GEC's main options at this stage, with a move in the US - perhaps a merger with Lockheed Martin – a more distant possibility.

BAe's Norwegian talks, Page 14
Lex, Page 12

Arnault courts Gucci chiefs

By Alice Rawsthorn in London, Samer Iskandar in Paris and Paul Betts in Milan

Bernard Arnault, chairman of LVMH, the French luxury goods group, flew to Milan yesterday to court the management of Gucci, the Italian fashion company in which he has stealthily amassed an estimated 20 per cent stake.

LVMH had earlier issued a denial that it planned to bid for Gucci "in the present circumstances". On Tuesday, it paid $398m for a 9.5 per cent holding owned by Gucci's arch-rival, Prada.

Gucci's shares, which reached €61 (£43.31) on Friday on bid hopes, fell by 4.8 per cent, or €2.8, to €55.1 in Amsterdam yesterday. LVMH's shares, also buoyed by bid speculation last week, were down €13.4 to €193 in Paris.

LVMH executives said Mr Arnault did not intend to mount a hostile bid for Gucci, which rose from obscurity to become one of the hottest fashion labels of the 1990s under Tom Ford, chief designer, and Domenico De Sole, president.

If Mr Arnault bids for control at a later date, he would only do so with the management's consent. Mr Ford and Mr De Sole have personal holdings in Gucci and are entitled to "golden parachute" payouts upon change of control.

Renowned for his ruthless business style, Mr Arnault has ousted the design and management teams at Christian Dior, Givenchy and other previous fashion acquisitions. Yet he appears anxious to keep Mr Ford and Mr De Sole at Gucci.

At a Giorgio Armani fashion show in Milan yesterday, Mr Arnault described Mr Ford as "an extraordinary designer", and in yesterday's Le Monde, the French newspaper, he said Mr De Sole was "an excellent manager".

The LVMH chairman also told Le Monde that he hoped to forge an alliance between his own fashion interests, Prada and Gucci to exploit their "negotiating strength".

However, he may find it hard to smooth relations between Mr De Sole and Patrizio Bertelli, Prada's chairman. Mr De Sole was furious when Prada secretly purchased its 9.5 per cent stake this summer, and was equally angry when Mr Bertelli sold it to LVMH without telling him.

Yahoo! profits reassure internet investors

By Roger Taylor in San Francisco

Yahoo!, the internet search engine, has reassured an industry renowned for its losses by reporting its first full year of profits.

The result, from a company that has become a figurehead for the internet sector, was especially reassuring for enthusiastic investors who have pushed up Yahoo!'s share price more than 10 times over the past 12 months.

Every time Yahoo! reports its results, the directors feel obliged to enter a note of caution – reminding everyone that current extraordinary growth rates are not sustainable.

In the last quarter of 1998, the company recorded earnings, before one-off charges, of 21 cents a share – over 10 times the earnings for the same period a year earlier.

But with the vast majority of the world yet to connect to the internet – and Yahoo! is an international company with businesses in 12 countries – there is plenty of headroom for growth.

For many investors, the fact that Yahoo! has a dominant position on the internet and an unshakeable belief that the internet represents the future, is enough to justify buying the stock, regardless of minor details, such as how Yahoo! actually makes money.

However, Yahoo!'s last year demonstrated at least one thing – that the idea of an "internet portal" as a business proposition has come of age.

An internet portal – the status to which most leading internet sites aspire – is the site to which internet users first turn.

It offers a variety of services, including news, internet search, e-mail and financial information. These are continually being expanded.

Yahoo! makes money by allowing companies to advertise to its users. Jeff Mallett, president and chief operating officer, said Yahoo had now established a "true media CPM business". CPM, or cost per thousand viewers, is the standard measure used by different media to price advertising.

Mr Mallett, said Yahoo! had seen advertising rates remain stable over eight quarters. The rates are believed to be in the $20-$25 CPM range, which is about double the rate charged by newspapers but substantially less than the amount charged by prime-time TV.

However, the company is rapidly developing much closer relationships with its partners. About 25 per cent of revenues come from longer term sponsorship deals.

For example, E*Trade and Discover, two online brokers, recently renewed the contracts, to be featured on Yahoo!'s financial pages, at increased rates.

Of the remaining 75 per cent of revenue, an increasing amount comes from more complex agreements. Yahoo! offers contracts similar to direct marketing deals in which it targets particular groups of consumers and gets bonuses according to the number of customers delivered.

Yahoo! is offering a number of services for what it calls its merchant partners and will host e-commerce sites for companies on its computers.

Theatre group founders indicted

Former Livent executives charged with conspiracy and securities fraud

By Edward Alden in Toronto

The co-founders of Livent, the bankrupt Canadian theatre production group, were indicted yesterday by a US federal grand jury on 16 felony counts of conspiracy and securities fraud.

Livent is credited with revitalising live theatre in North America in the 1990s, staging lavish productions such as *Phantom of the Opera*, *Kiss of the Spider Woman* and *Ragtime*.

Garth Drabinsky – Livent's former chairman and chief executive – and Myron Gottlieb, the former president, were charged with orchestrating a scheme to falsify the financial statements of Livent and to defraud buyers of Livent securities.

The two have denied any wrongdoing and are suing the new management of Livent, which took over from them in April.

Livent was granted bankruptcy protection in the US and Canada later in the year after the company's new management revealed the alleged accounting frauds.

The most serious of the charges against Mr Drabinsky and Mr Gottlieb each carries a penalty of up to 10 years in jail, a US$1m fine or a fine double the gains realised from the fraud.

In addition, Mr Drabinsky, Mr Gottlieb and six other former Livent employees were sued yesterday by the US Securities and Exchange Commission on charges that they engaged in "a multi-faceted and pervasive accounting fraud" between 1990 and 1998.

The SEC has been stepping up its efforts to crack down on accounting fraud and the Livent case is a centrepiece of that effort.

Richard Walker, director of the SEC's enforcement division, yesterday said: "Accounting fraud strikes at the heart of the securities market and will not be tolerated by the commission."

The alleged fraud includes kickbacks to the two co-founders, widespread and deliberate manipulation of the company's accounts and insider trading by five individuals.

The SEC charged that Livent made at least 17 false filings with the commission, which overstated the company's results by tens of millions of dollars.

Paul Gerlach, associate director of the enforcement division, said the charges were among the most serious levied by the SEC in recent years.

The suit, filed in US federal district court in New York, alleges that Mr Drabinsky and Mr Gottlieb manipulated income and cash flows with the active participation of several long-time associates.

The two are alleged to have engaged in a kickback scheme from 1990 to 1994, in which they siphoned off C$7m ($4.6m) for their personal use. They are also alleged to have engaged in various ways to understate expenses and fraudulently inflate earnings, thereby portraying money-losing theatrical productions as profitable.

Web slight: Chita Rivera in Livent's show Kiss of the Spider Woman AP

BASF plans 5% buy-back to boost shareholder value

By Uta Harnischfeger in Frankfurt

The German chemicals firm BASF is to buy back up to 5 per cent of its shares, signalling a commitment to increasing shareholder value in a move that may well be emulated by other German companies.

Yesterday's announcement initially sent BASF stock seven per cent higher, before falling back as Brazil's effective devaluation dragged down German stocks.

German companies have been criticised for not paying enough attention to shareholder value. It was only last May that Bonn allowed share buy-backs, taking another seven months to clarify how to tax them.

BASF plans to buy back up to 31m shares in 1999 which will cost it about €1bn ($1.19bn). "We finally have the same kind of access to financial market tools like all our peers all over the world," said BASF. The company added that BASF was always a cash-rich organisation.

"Even though we are making a lot of acquisitions, we wanted an additional tool to increase shareholder value," he said.

BASF yesterday estimated that if it completed the five per cent buy-back, its equity ratio as part of total capital would be about 40 per cent, compared to 50 per cent before.

The company last year said it would only go ahead with buy-backs once it was confident that they would receive tax-neutral treatment. Under Bonn's ruling, share buy-backs will be treated like other proceeds from disposals, and only have to be taxed if they were held by shareholders less than six months.

Though BASF is only the second DAX 30 company to buy back shares, its planned buy-back volume dwarfs that of pharmaceutical firm Schering, which set off the trend in November.

Schering spent roughly €70m when it bought back 1 per cent of its outstanding shares.

Many other German companies may follow suit. According to the German Share Institute, more than 60 German companies have shareholder approvals to buy back up to 10 per cent of their outstanding shares, 10 per cent being the upper limit for share buy-backs in Germany.

"From now on, this instrument will be used a lot," said Rüdiger von Rosen, the Share Institute's director.

"I assume that we will see many more share buy-backs in the coming months and I expect more DAX 30 companies among them," he noted, adding that share buybacks always inspire the markets, particularly when they are first announced.

But some companies are reluctant. None of the three DAX 30 companies that currently has shareholder approval to buy back up to 10 per cent of its shares is planning such a move in the foreseeable future.

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BANKING FRENCH INSTITUTION ACTS AFTER CRITICISM OF STRATEGY AND HEDGE FUND LOSSES

Paribas to revamp for expansion drive

By Samer Iskandar in Paris

Paribas, the French bank, yesterday announced a sweeping re-organisation aimed at preparing it for international expansion.

The announcement follows recent criticism from Axa, the insurance company which is its largest shareholder, that the bank's management was unable to convince the markets it had a coherent strategy.

Paribas' ambitions now included "increasing our international presence", it said.

The restructuring also comes weeks before the planned privatisation of Crédit Lyonnais, the bank that is being propped up with FFr120bn-FFr150bn (€18.3bn-€22.9bn, $21.1bn-$26.4bn) of subsidies.

Dominique Strauss-Kahn, French finance minister, is aiming to sell just under a third of Crédit Lyonnais to long-term institutional investors before the end of March. Paribas has said it will seek to buy a stake of up to 10 per cent.

Paribas came under attack late last year from Claude Bébéar, chairman of Axa. Paribas shares were among those hit hardest by last summer's emerging markets crisis, falling by more than 60 per cent.

The bank has also suffered from being one of only two French banks exposed to Long-Term Capital Management, the US hedge fund which had to be bailed out with $3.6bn under a US Federal Reserve-led initiative.

Mr Bébéar's comments prompted speculation that he might apply pressure on André Lévy-Lang, Paribas chairman, to forge links with Banque Nationale de Paris, the commercial bank in which Axa also holds a big stake. Both Axa and BNP are also interested in participating in the Crédit Lyonnais privatisation.

Paribas shares yesterday closed at €75, down 4.3 per cent, roughly in line with the French market and outperforming other bank shares. Shares in BNP and Société Générale, the two largest listed banks, fell by around 7 per cent to €68.1 and €141.8, respectively.

Paribas Principal Investments (PAI), the holding company that manages the bank's proprietary investments, will be the main beneficiary of the reorganisation.

PAI, previously part of Paribas' investment banking division, will become one of four core activities singled out as the building blocs of a new "organisation focused on development and growth". The other three are investment banking, asset management and retail financial services.

PAI's performance was a main factor in the group's first-half results last year, which saw net profits rise by 25 per cent compared with the same period in 1997, to FFr4.21bn. Mr Lévy-Lang has set an objective of achieving return on equity of 15 per cent by next year.

Political anxiety stalls Egyptian IPOs

Overpricing and job protection clauses are discouraging investors, writes **Mark Huband**

New faces have replaced those of the surly gate guards who once snarled at visitors to the towering office of Egypt's leading washing machine manufacturer.

Gone is the aggressive interrogation and the studied nonchalance, to be replaced by courtesy and assistance.

The change in style, along with the renovation of the office facade with marble, follows the privatisation of the Delta Industrial Company, one of very few privatised companies to have been sold to a strategic investor.

But these outward changes cannot hide the struggle that confronts the Egyptian private sector's attempt to expand at a time when the government's privatisation programme shows signs of having stalled.

"When it comes to the reality, it's more of a nightmare than you expect. But at the same time there are more opportunities than we expected," said Mohamed el-Abd, managing director of the company, known by its brand name Ideal.

A year ago Egypt's private sector Olympic Group bought 67 per cent of Ideal, the leading public sector manufacturer of washing machines and refrigerators, and the government's monopoly supplier of office furniture. Mr Abd's family, which acts as the Egypt agent for Electrolux-Zanussi of Italy, bought 14 per cent. The aim of Olympic Group was to cement its control of the sector, in which it was already the private sector leader.

The $69m deal was at that time only the second state sale to a strategic investor.

The success of the deal has not been followed by similar sales, however, and it is now more than four months since the government privatised any companies. Ideal's new private sector owners are meanwhile faced with numerous hurdles.

"We have to train at least 5,000 of the 6,800 people we employ," said Mr Abd. "The quality of people working here ranges from excellent to useless." The privatisation deal stipulated that none could be sacked.

Coupled with labour problems, the company is owed Le8m ($2.3m) from public sector companies that had accumulated debts with Ideal before privatisation.

Ideal's success as a privatisation depends on the ability of Olympic Group to invest heavily, which it is prepared to do to make its purchase a success. But the problems the company faces will be scrutinised by other potential investors as they assess the attraction of strategic investment.

Despite recent upward movement, the stock market is at its lowest level since privatisation began in 1996. The government faces demands to accelerate privatisation before market conditions render the entire programme unsustainable.

Robust debates over timing and speed have brought key participants in the Egyptian financial sector to the point of apoplexy as the government debates the politics of reform with, according to financiers, little or no sensitivity to market priorities.

In the past ten months the value of shares on the Egyptian stock market has slipped by 36.2 per cent. Earnings levels of listed companies have not been impressive, leading to disillusionment among retail investors and heavy redemption levels among shareholders in mutual funds.

"The government isn't adequately using the weapons at its disposal to overcome this situation, partly because they don't know how to," said a leading Cairo banker.

"We are not in a crisis. It's a tug of war, a struggle between two camps. The issue is confused. The privatisation office is thinking purely of privatisation as a sale of assets. They don't value the productivity gain and better resource-management that is the whole purpose of privatisation," he said.

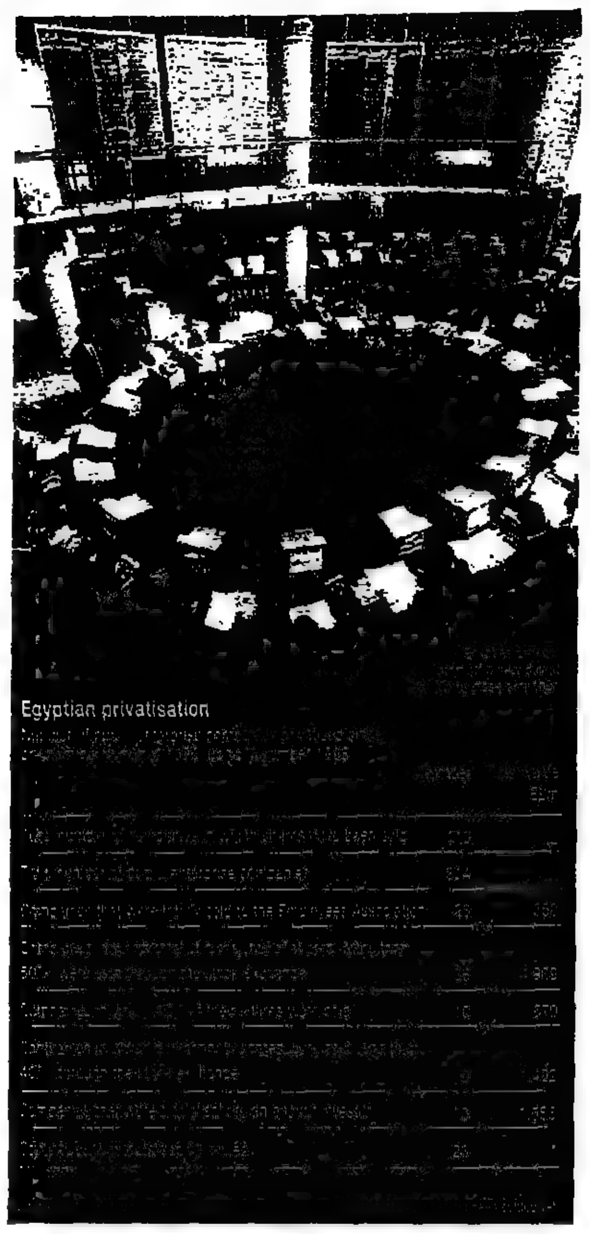
The government is under increasing pressure to facilitate the full acquisition of public sector companies, rather than relying on piecemeal minority issues on the stock exchange.

"The government has done its best to protect its own interests, which is by maximising prices," said Hussein Choucri of HC Securities and Investments. "They are a seller and should be seen in that way. But they need to price lower in order to get the market going."

The government's privatisation office faced the wrath of supporters of public sector ownership when it sold cheaply, while overpriced sales have flopped. It has yet to convince its critics that investors cannot gain when initial public offerings are overpriced and then sink, as they are doing now. Political considerations rather than market forces are central to government policy.

The experience of Ideal, which is one of only six companies to have been sold to an anchor investor since privatisation began in 1996, encapsulates the ups and downs of the Egyptian situation. While investment bankers say they have been approached with offers of interest in acquiring state assets, the government has spurned the offers.

"Why are they going slowly? There are many arguments," said Mr Abd. "They could be right sometimes. But they have no choice. If they are going to sell, sell now."



KKR to raise European buy-out fund

By Katharine Campbell, Growing Business Correspondent

Competition in the European buy-out market intensified yesterday as Kohlberg, Kravis Roberts confirmed plans to raise a multibillion-dollar fund dedicated to the region.

A spokesman said a target amount had not been set because the company wanted to sound out investors first. However, market sources suggested it could be as high as $3bn. The largest European fund to date is CVC Capital Partners' $3.1bn vehicle.

Buy-out houses from the mature US market have crowded into Europe in the past year and may put pressure on UK operators in coming months. Carlyle, a Washington-DC based firm with an extensive presence in Europe, closed an Ecu1bn fund last summer, while Hicks, Muse, Tate & Furst is planning a $1.5bn fund.

KKR opened an office in London this month – headed by Edward Gilhuly, a partner from its Menlo Park, California office – after it unwound Glenisla, an affiliate set up in 1994.

"[The Americans] have the skills and appetite for very aggressive financing structures," said John McCrory, managing director of Crossroads UK, a private equity adviser. "It may open a new set of opportunities in the market but there may also be a period of indigestion while everyone tries to make a mark."

He said that US participants would be more successful in buying the divisions of multinational companies "because they all speak the same language". He predicted that winning the confidence of continental family-owned companies – "where the real opportunities for value will lie" – could prove trickier.

Very large buy-outs have been rare since last August's financial crisis, not least because the European high yield market, which had played an important role in structuring transactions at the top end of the market, had dried up.

KKR's abortive bid last autumn for Herberts, paints division of the German chemicals group Hoechst, was a casualty of the financial upheavals.

Bankers had been expecting the high yield market to revive this month – at least before this week's Brazilian crisis. Peter Morris, director of high yield research at Dresdner Kleinwort Benson, said there were several deals in the pipeline for January, and that investor interest was strong.

Willis Corroon, the UK insurance broker taken private by KKR last summer, is understood to be planning a $550m high yield bond to repay a bridging facility.

NEWS DIGEST

TELECOMMUNICATIONS

Ericcson finance chief to take early retirement

Ericsson, the Swedish telecommunications group, yesterday said Carl Wilhelm Ros, its chief financial officer, had decided to take early retirement following its corporate restructuring and management overhaul announced last October. Mr Ros, 58, said he had signalled his intention to stand down one and a half years ago, and his departure did not reflect any differences over strategy with Sven Christer Nilsson, Ericsson chief executive.

He admitted, however, that the possibility that Ericsson could move part of its finance functions to London had influenced his decision. "There has been a suggestion of moving the CFO position to London. I had no interest in going there," said Mr Ros, a member of Ericsson's executive management for 13 years.

Mr Ros's departure follows the defection last August of Bo Hedfors, head of Ericsson's US operations, to North American rival Motorola. Anders Igel, head of the group's Infocom division, has also decided to leave.

The company said yesterday the departures were unrelated. "There have been no clashes with the chief executive, either at a professional or personal level," it said. Last month, Ericsson issued a profits warning and announced heavy job cuts, saying fourth-quarter profits – to be published this month – would fall 15-20 per cent short of market expectations. **Tim Burt, Stockholm**

TEMPORARY RECRUITMENT

Randstad profits up 29%

Randstad, the Netherlands' leading temporary employment agency, boosted net profits 29 per cent last year to Fl 257.8m (€117m/$135.7m), slightly trailing revenues which rose 31 per cent to Fl 9.3bn. Hans Zwarts, the former banker who took over as chairman last year from Frits Goldschmeding, Randstad's founder, said yesterday he saw an average 10 per cent growth over the next decade. The company itself should exceed that performance, he said. **Gordon Cramb, Amsterdam**

BANKING

Lyonnais to sell Banca Jover

Crédit Lyonnais, the French bank, is to sell Banca Jover, a banking network based in Catalonia and the Balearic Islands, to Caja de Madrid, Spain's second-largest savings bank in a transaction worth Pta1.7bn (€10.2bn, $11.8bn). Crédit Lyonnais had paid Banco Santander Pta44bn in 1991 for Jover, as part of an ambitious Spanish investment strategy, but failed to build its subsidiary into a viable business.

Caja Madrid said that after due diligence an original sale price for Jover of Pta5.9bn had been reduced to Pta1.7bn. The sale includes Iberagentes, a stockbroking firm operated by Crédit Lyonnais, which will be jointly acquired by Caja Madrid and by Caja Duero, a regional savings bank. **Tom Burns, Madrid**

PUBLISHING

German group mulls FT link

Gruner + Jahr, the German publishing company, said yesterday that it was negotiating a joint venture with the Financial Times that could lead to the launch of a new financial newspaper in Germany.

Gruner + Jahr, which is a subsidiary of Bertelsmann, the privately-owned media company, said it was discussing a range of possibilities including a daily newspaper, or financial supplements in existing German papers. The German group said the planned project would cost between €76m and €92m and would involve the recruitment of between 80 and 100 journalists. Pearson, which owns the FT, said that any financial details were premature.

● Pearson Television has taken a 10.9 per cent stake in an online entertainment company called E-Pub to develop internet versions of game shows. E-Pub, valued at €197m ($227.6m) in mid-January, specialises in the creation and distribution of games shows online through its Uproar internet site. Pearson Television has the world's largest catalogue of game shows.

E-Pub said it also intended to raise between $7m and $10m through a private equity offering to increase sales and marketing relating to its game show products.

Alcatel upbeat on Ascend move

By David Owen in Paris

Shares in Alcatel, the French telecommunications equipment manufacturer which announced an alliance with Ascend, the US data networking company, in September, fell more than 5 per cent to E105.8 on a weak Paris market.

But the French company yesterday played down the possible impact on its business if Ascend's merger with Lucent, the US maker of telecommunications equipment, prompted a severing of this relationship, saying it had taken precautions against such an event.

Alcatel said it was selling remote access nodes made by Ascend but had independently developed the associated management platform. If the partnership with Ascend were broken, it would associate the platform with another supplier.

It had developed the software for an internet protocol service access gateway to be transported on an Ascend router. But Alcatel had ensured that if the alliance were broken, it would continue to have full access to the router's technology. There would therefore be no impact on the development of the software.

The French company had also planned to integrate Ascend routers in its next-generation very-high-volume switching system. If the link-up were ended, it would integrate a router from Packet Engines, another US company acquired by Alcatel last year.

When the Alcatel-Ascend tie-up was announced last year, it was predicted that the two companies would develop next-generation internet access solutions that would "make high-speed data services a reality for businesses and consumers and reduce costs for network service providers".

BAe in talks on Kongsberg link

By Valeria Skold in Oslo

British Aerospace is in talks with Kongsberg over a strategic partnership that could lead to a joint venture with the Norwegian government-owned defence company.

Simon Carr, BAe executive vice-president for Europe, said the company was meeting Kongsberg and other Norwegian companies ahead of a NKr12bn ($1.61bn) project to build five to six frigates for the Norwegian navy.

The UK company might seek an arrangement similar to its deal with Saab Aerospace, the Swedish aircraft and defence company, in which it paid £269m ($439m) for a 35 per cent stake, Mr Carr said.

"We're always interested in private companies," Mr Carr added. "This can be a catalyst for privatisation. We have not had any comments from Norway that they are unfriendly to this."

The Norwegian government recently sold its one-third stake in Norsk Jetmotor, which is part-owned by Kongsberg, to Sweden's Volvo Aero. However, it said it had no current plans to cut its 50.002 per cent stake in Kongsberg.

A link with Kongsberg would fit BAe's needs to expand into naval and weapons systems, while positioning it for a share of the frigate order, Mr Carr said.

It could also give the UK group a head start in its fight to sell Eurofighter fighters to Norway this year. Norway plans to replace its fleet of Lockheed-Martin F16 fighters.

A sale would break Norway's long-standing tradition of purchasing fighter aircraft from the US and would mark the first Eurofighter sale to a country outside the production consortium.

In addition to BAe, the consortium includes Germany's DaimlerChrysler Aerospace, Alenia of Italy and Casa of Spain.

Krauer to step down at Novartis

By William Hall in Zurich and David Pilling in London

Alex Krauer, 67, is stepping down early as chairman of Novartis, Switzerland's biggest pharmaceuticals company, in a move likely to increase speculation that he is preparing to take on the chairmanship of UBS, Europe's biggest bank, on a permanent basis.

Mr Krauer will retire after Novartis's annual meeting on April 21 to be replaced by Daniel Vasella, 45, who became chief executive of Novartis after the 1997 merger of Sandoz and Ciba that created the company.

Mr Vasella denied the appointment would concentrate too much power in his hands, saying a combined chairman and chief executive was common practice in the US. "I think this question will be answered by the results we generate," he said.

Mr Vasella, a doctor until 10 years ago, said Novartis was at a critical juncture as the company was moving from integration to growth.

"The question of internal growth versus external growth [acquisition] was and is on the table," he said.

Consolidation of the drugs industry would continue and Novartis was in a position to participate if it chose. "We have the financial means and the organisational resources," he said. The company has net cash of SFr9bn ($6.4bn).

Mr Krauer, who was chairman of Ciba before the merger, said it had always been his intention to step down after the merger had been completed. However, he could have continued until the age of 70.

Mr Krauer's early departure will increase speculation about his plans at UBS. He took over as the bank's temporary chairman last October after the resignation of Mathis Cabiallavetta in a shake-up prompted by the bank's exposure to Long-Term Capital Management, the US hedge fund.

UBS is digesting its merger with the smaller Swiss Bank Corporation and the resignation of Mr Cabiallavetta and three other senior executives dented confidence in Switzerland's flagship bank.

Mr Krauer has been in charge of finding a replacement for Mr Cabiallavetta, who lasted fewer than three months as chairman. Mr Krauer has been under pressure to stay on as chairman to help bed down the UBS-SBC merger.

The bank's delay in making an appointment has added to uncertainty. UBS refused to comment yesterday on whether Mr Krauer would stay on but said he would inform the UBS board on January 27 about progress in the search for a new chairman.

Meanwhile at Novartis, Helmut Sihler, an outside member of the board, becomes a director and Heini Lippuner, a former Ciba executive, joins the four-strong board committee. William George, chairman and chief executive of Medtronic, a US medical technology firm, and Rold Zinkernagel, a Nobel prize-winning Swiss scientist, also join the board.

Man of destiny: Mr Krauer is expected to take control at UBS

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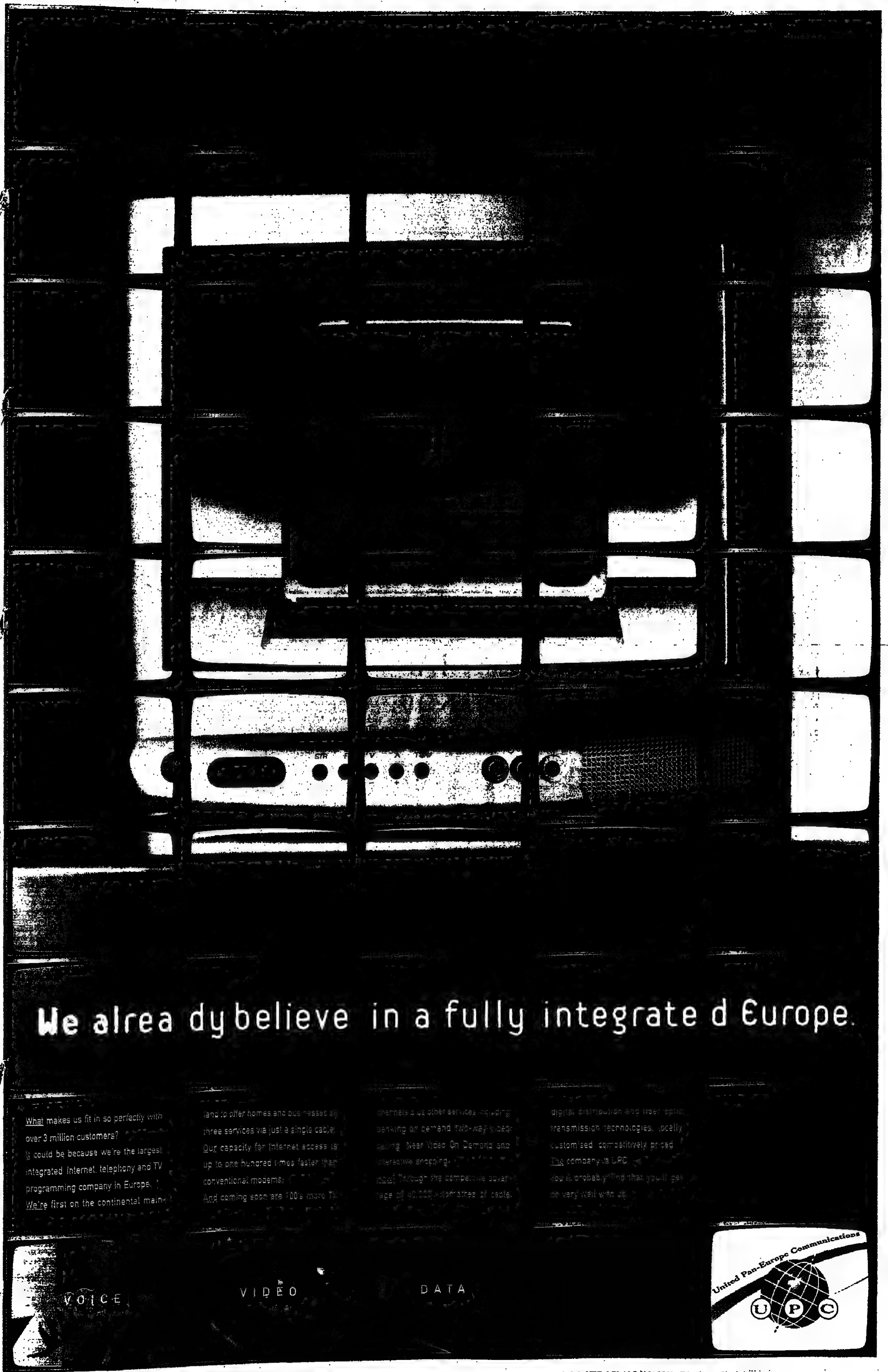


COMMUNICATIONS NETWORKING REVAMP TO AFFECT 10% OF CANADIAN GROUP'S WORKFORCE

Streamlining to save Nortel $300m

By Scott Morrison in Toronto

Nortel Networks, the Canadian communications networking company, said yesterday it expected to save up to US$300m annually by streamlining operational procedures over the next three years, changes that would affect 10 per cent of its workforce.

However, the company said it would not take a large one-time restructuring charge but would take smaller charges in various quarters as it decided how to reduce duplication at its manufacturing plants.

Nortel, formerly known as Northern Telecom, said it would adopt a "systems house" operating model common among computer manufacturers and data networking groups. The company would be the first of the old generation of telecoms groups to adopt the model, which will enable it to link customers with design centres, internal production facilities, contract manufacturers and other resources.

Nortel said it would divest some production plants and rely more heavily on outsourced manufacturing. Its order intake and its fulfilment, delivery, service and manufacturing systems will all be affected over the next three years.

"Change is hard, but it is absolutely necessary," said Mark Lucey, an analyst at Kearns Capital. "Doing things the way they are currently doing them is not an option, because they are not nimble enough effectively to realign resources with demand."

Nortel said the era of long product-development cycles was coming to an end as customers demanded fast delivery, testing and implementation of unified telephony and data networks. The company, once known specifically for its voice carrier networks, has pursued acquisitions aggressively over the past two years, enabling it to expand its presence in the data networking market.

John Roth, chief executive, would not provide details but said all Nortel's manufacturing operations were under review, including those of Bay Networks, the US networking group acquired for US$7bn last year.

Yesterday's announcement signals the acceleration of a restructuring programme unveiled last year, when Nortel said it would shed 3,500 employees, or about 5 per cent of its workforce. Mr Roth said that while 10 per cent of the 80,000 employees would be affected by the newest round of restructuring, the impact on personnel would be minimised by divestments, retraining and natural wastage.

Nortel said the expected US$250m-US$300m annual savings would not affect 1999 financial projections from continuing operations but would position the company for future growth. The strategy would give the company higher market share and revenue growth.

"This programme did not have any impact on the final results for 1998," said Mr Roth. "We are on target for achieving results that are in line with our guidance for 1998 and 1999."

Bid for AirTouch could give Vodafone digestion problems

The US group's European assets are an attraction, but its domestic network could prove difficult to absorb, reports Richard Waters

The bidding war that has broken out over AirTouch, the US wireless carrier, closely echoes the 1996 battle for MCI Communications in a number of ways. But none may be more telling than this: like British Telecommunications' bid for MCI, it amounts to an attempt by a foreign carrier to take a big stake in the fast-consolidating US telecoms industry.

And that, in turn, raises a difficult question. How could Vodafone, like BT before it, hope to play a leading role in the changes under way in the US, particularly since it has expressed little interest in investing in the US in the past?

The answer to that question could yet lead to an accommodation between Vodafone and Bell Atlantic, which has also bid for AirTouch, and could result in some sort of carve-up of AirTouch's assets, according to analysts and consultants.

The UK company's $55bn bid was prompted mainly by its interest in AirTouch's spread of investments in Europe. These are widely thought to account for more than half of AirTouch's stock market value, and a Vodafone official loosely has described the European assets as accounting for "75 per cent" of the reason for the group's bid for AirTouch.

Yesterday, AirTouch lifted its stake in Omnitel-Pronto Italia, the Italian wireless operator, from 15.5 per cent to 17.8 per cent, with a further option to raise that to 21.7 per cent by the third quarter of 1999.

But a successful bid would also leave Vodafone with a US operation that still accounts for more than half of AirTouch's revenues and earnings before interest, taxes, depreciation and amortisation (ebitda).

Vodafone, however, says it has every intention of keeping AirTouch's US business. Contrary to its earlier stance, it now believes the growth rate and pace of consolidation in the US make this an attractive market for investment, the company adds.

Any attempt by Vodafone to sell AirTouch's US network would attract a big tax hit, according to investment bankers in New York

However, such a move would leave Vodafone with some difficult strategic decisions to make.

The US wireless market is changing fast. For a start, the race to establish networks with national coverage has accelerated in the past few months.

AT&T, still the largest wireless carrier, shocked the rest of its industry last year with a flat-rate pricing plan that effectively does away with roaming fees – the heavy charges that users pay when calling from outside the reach of their own carrier.

Others are struggling to catch up – including Bell Atlantic, whose own East Coast presence would be turned into a national footprint with the acquisition of AirTouch's West Coast and Mid-western networks.

A second big change in the US telecoms industry has been the dawning awareness that mobile telephony could provide one of the answers to the industry's greatest problems: how to circumvent the wires – that are still largely owned by the Baby Bells – into American homes, and which act as bottlenecks preventing rivals breaking into the local market.

Wireless prices have fallen fast with the big increases in volumes seen recently bringing closer the day when mobile services become an economic rival to traditional fixed lines.

All of this makes AirTouch's US operations of far more immediate use to Bell Atlantic than to Vodafone.

The New York-based local carrier would at once be able to stitch together a coast-to-coast wireless network and create a national base for eventually extending its full range of services around the country.

In the process, it would steal a march on SBC, the Texas-based local carrier whose own aggressive spate of acquisitions closely mirrors that of Bell Atlantic.

For its part, Vodafone would face two choices in the US: to embark on acquisitions of its own to create a national network, or to try to maintain AirTouch's existing, close working relationship with Bell Atlantic.

"If they acquire AirTouch, they would have to make a round of further purchases," says Robert Egan, a consultant at Gartner Group.

However, this option has already been ruled out by some Vodafone officials. Europe remains its main focus of expansion. Also, such an acquisition binge would be difficult to mount, given the scarcity of large, independent regional carriers to buy.

One network Wall Street sees as potentially up for sale is that of Ameritech, the Midwestern Bell being bought by SBC: its wireless network, based on CDMA technology, could not be stitched together with SBC's own TDMA network.

However, Bell Atlantic itself is likely to be one potential buyer, and Vodafone may find such a deal a stretch so soon after any deal with AirTouch.

According to Vodafone, the company could simply opt to continue AirTouch's existing relationship with Bell Atlantic – including their joint venture digital carrier, PrimeCo, which owns licences in markets that neither reach.

However, the rapid change under way in the US market, and Bell Atlantic's all-too obvious anxiety to control a national network, may make that an unstable mix.

Any attempt by Vodafone to sell AirTouch's US network would attract a big tax hit, according to investment bankers in New York. However, some say that it may be possible to structure an arrangement that gives Bell Atlantic a more direct interest in the AirTouch assets without triggering a tax payment.

Given the difficult strategic choices that a takeover of AirTouch would create, such a move by Vodafone cannot be ruled out.

Tough decisions: Chris Gent, Vodafone chief executive Brendan Corr

Cemex expansion turns to Brazil

By Henry Tricks in Mexico City

Cemex, the Mexican cement multinational, said yesterday it was eyeing assets in the devaluation-stricken Brazilian market. The move follows the launch of controversial expansion plans in south-east Asia on Monday.

Héctor Medina, chief financial officer, said the company maintained its goal of relocating assets worldwide and particularly in Brazil, where a devaluation yesterday was expected to lower the price of cement companies in the fragmented industry.

"We have a very keen interest in Brazil as one of the markets where we think we can be successful. There's certainly a possibility there," he said. Cemex had no specific purchase plans, however.

The company has already raised its bet on recovery in Asia this week with decisions to expand in the Philippines and Indonesia.

Cemex is to spend $128m raising its stake in Rizal Cement of the Philippines from 30 to 70 per cent. It also plans to buy the country's APO Cement for $400m and has paid $49.1m to lift its stake in Semen Gresik of Indonesia to 22 per cent.

Mr Medina said the investments were aimed at turning Cemex into a significant force in cement trading in Asia. And he insisted the strict financial target of a ratio of 3.3 for net debt to cash flow was not jeopardised by the moves.

The expansion plans raised eyebrows on Wall Street, however, where analysts worried the company was stretching itself to the limit.

Carmen Slade, cement analyst at Salomon Smith Barney, the US investment bank, estimated the Asian acquisitions plus investments in Cemex's Colombian and Mexican subsidiaries would cost more than $700m in 1999, slightly above the company's expected free cash flow.

Ms Slade cut her recommendation on Cemex stock from "buy" to "neutral", saying the company was "pushing its 1999 financial plan to the edge", which was likely to unnerve investors.

Mr Medina said Cemex would finance the acquisitions using cash flow from 1999 and some left over from 1998 together with proceeds from the possible sale of hotels in Mexico. It might also take on temporary short-term debt but was sticking by its plan to cut its debt from current operations by $400m this year, he said.

Ford planners see Volvo as logical buy

By Haig Simonian, Motor Industry Correspondent

Senior planners from Ford Motor touring Europe are believed to be backing the possible acquisition of Volvo's car division to complement the group's existing brand portfolio.

The team, visiting the UK and Germany to sound out analysts and leading suppliers, has been seeking reactions to Ford's strategy and ideas on its future direction at a time of unprecedented change in the motor industry.

The approach to Volvo is believed to reflect widespread thinking in Ford that the Swedish group's car division would complement, rather than duplicate, existing Ford brands.

In the US especially, Volvo's biggest car market where it sold more than 100,000 vehicles last year, the Swedish marque has, "very clear demographics", according to one observer.

There is a marked concentration of sales in the north-east – where Ford has traditionally been weak – and strong support from women drivers and families.

That is seen as complementing, rather than overlapping, Lincoln, Jaguar and Aston Martin, Ford's upmarket brands.

Apart from the core Ford division, the US group builds Mercury and Lincoln models in the US. European brands include Jaguar and Aston Martin.

Ford also has a controlling 33.4 per cent stake in Mazda of Japan, which is being increasingly integrated into the group's global product development plans.

With an estimated $16.9bn of net liquidity, according to analysts at J.P. Morgan, Ford has been seen as one of the most likely buyers if the industry consolidates. Volvo, which last week admitted it had appointed J.P. Morgan to advise on strategic options, is seen as vulnerable because of its relatively small size in cars.

Jac Nasser, Ford chief executive, argues his group has the size and resources to thrive in its present form. However, he admits Ford would consider a deal if it represented an "absolute opportunity for us".

The fears of duplication with existing brands stem from Jaguar's push into smaller models and Ford's plan to use Lincoln to plug the gap that has emerged in Europe between the core Ford brand and Jaguar's executive models.

Jaguar output could reach 200,000 cars a year by 2002 with the introduction of the X400 "Baby Jag".

The X400, intended to compete with small executive saloons such as BMW's 3 Series, marks the most ambitious part of a long-term product-driven growth plan for Jaguar which has already seen output climb to a record of 50,230 cars last year.

Sales this year should reach about 80,000 units as production starts of the group's new mid-sized S type saloon.

Plans to introduce Lincoln in Europe centre on the brand's new LS6 and LS8 six- and eight-cylinder models, which are built on the same basic engineering structure as the S Type.

Lincoln's European launch, originally expected in mid-1999, appears now to have slipped back towards the end of the year after reports of quality problems at US plants.

Aetna in Polish pensions venture

By John Authers in New York

Aetna, the US financial services group, is launching a joint venture to sell pensions in Poland, in an aggressive expansion of its strategy of taking advantage of social security reform in emerging economies.

Aetna will work with Poszechny Bank Kredytowy (PBK) of Warsaw, using a team of managers from AFP Santa Maria, Aetna's Chilean pension affiliate. Chile privatised its pension system several years ago, in a move widely regarded as providing a model for other developing countries.

The Chilean market has become highly lucrative for US providers and Aetna's subsidiary has 1m pension fund participants and about $3.9bn in assets – roughly 15 per cent of the Chilean pension market. The new venture is timed to benefit from the privatisation of Poland's pension-management sector, expected in April this year. Under the plan, Aetna would hold a 40 per cent stake in the joint venture company and PBK 60 per cent.

PTE PBK, the name for the new venture, would seek to benefit from PBK's distribution network in Poland where it has about 300 bank branches.

It also continues Aetna's strategy of concentrating its business outside the US solely in emerging markets, despite the growing difficulties of Latin America and Asia in the last eighteen months.

The company has sold its businesses in western Europe, and now has large businesses in Mexico, Peru and Brazil.

Dow Chemical plans cost-cuts

Dow Chemical, of the US, is planning a $700m cost reduction programme over the next two years, Dennis Lauzon, president and chief executive of Dow Chemical Canada said yesterday. **AP-DJ reports from London.**

Mr Lauzon told the UK Chemical Industry Association's annual Business Outlook conference that Dow Chemical planned to restructure its business portfolio and invest more heavily in areas such as base chemicals and plastics.

The group was also looking at ways to improve its organisational effectiveness, which Mr Lauzon said meant "changing our culture to one in which people have true owner-investor mentality... we have already created a business-focused organisation through 14 global businesses and are already experiencing greater accountability with far fewer layers of management."

Mr Lauzon said Dow Chemical hoped the measures would help give a return on capital exceeding the cost of capital by 3 per cent over the next few years. The group also sought a return on equity of 30 per cent and hoped to lift earnings per share by an average of 10 per cent annually.

CONTRACTS & TENDERS

Deadline: March 18, 1999

ESTONIAN PRIVATIZATION AGENCY

announces a two-stage tender with preliminary negotiations for selling

1,000,000 STATE-OWNED SHARES
(with a nominal value of 100 Estonian kroons each)
OF A LIMITED COMPANY AS EDELARAUDTEE
(a company offering railway services)

1 DEM = 8 EEK

Location: Kaare tee 25, Türi, Järvamaa, Estonia.
Primary areas of activity: offering railway transport service; organizing railway maintenance and protection.
Share capital: EEK 100,000,000.
Balance sheet value of assets (as of December 31, 1997): EEK 227,565,458, including fixed assets EEK 205,119,563.
Net sales in 1997: EEK 65,066,494, loss EEK 4,285,904.
Number of employees as of October 1, 1998: 885.

TENDER CONDITIONS

1. **General Conditions**

   Estonian Privatization Agency (EPA) is authorized to sell at a two-stage tender with preliminary negotiations all the state-owned shares of AS Edelaraudtee.

   Persons interested in participating in the tender may obtain a brief overview of AS Edelaraudtee and a written permit for visiting the company, on the basis of which the management of the company may supply further information. EPA is not responsible for the accuracy and completeness of the information.

   The bid must be presented in writing either in Estonian or English.

   Privatization will be carried out in accordance with the legal acts of the Republic of Estonia.

2. **Basic Tender Requirements**

   The bid must be submitted to cover all 1,000,000 shares of AS Edelaraudtee owned by the state.

   In addition the bid must include:

   * technical and financial plan (applied technology, investments, including the amount of investment in share capital and the sources of financing);
   * business plan;
   * the minimum amount of the investment will be EEK 100,000,000.

   EPA shall enter into preliminary negotiations with bidders on the basis of qualified bids submitted by the deadline on March 18, 1999. On the basis of qualified bids EPA shall select one or several bidders who will be invited to participate in the second stage of the tender. Thereafter, EPA shall designate and announce the deadline for the second stage and final tenders.

3. **Final Provision**

   The Board of EPA reserves the right to accept a bid other than the one with the highest purchase price.

Väino Sarner
General Director of EPA

Complete advertisement at Internet address http://www.eea.ee

For the required documentation and additional information contact EPA, 6 Rävala Str., Tallinn 15046, Estonia. Office hours of EPA are Monday through to Friday from 9:00 a.m. until 4:00 p.m. local time, telephone 37-26-305 620.

LEGAL NOTICE

COURT OF SESSION

THE PETITION OF BRITISH ASSETS TRUST PLC
A COMPANY INCORPORATED UNDER THE COMPANIES ACTS AND HAVING ITS REGISTERED OFFICE AT 1 CHARLOTTE SQUARE, EDINBURGH EH2 4DZ
- for -
CONFIRMATION OF REDUCTION OF SHARE CAPITAL

ON 6 JANUARY 1999 LORD ABERNETHY PRONOUNCED THE FOLLOWING INTERLOCUTOR:

The Lord Ordinary appoints the Petition to be intimated on the Walls in common form and to be advertised once in the Edinburgh Gazette, The Scotsman and the Financial Times Newspapers and appoints all parties claiming an interest to lodge Answers, if so advised, within 21 days after such intimation and advertisement.

"Elaine Dickson"
DCS

of which intimation is hereby given.

Shepherd & Wedderburn WS,
Saltire Court
20 Castle Terrace,
Edinburgh, EH1 2ET
Agent for Petitioners

مكررا من الاصل

CARMAKING JAPANESE GROUP HOPES TO SELL 10,000 OF NEW HATCHBACK A MONTH

Toyota unveils model to lead European push

By Alexandra Harney in Tokyo and Haig Simonian in London

Toyota, Japan's biggest vehicles group, yesterday unveiled the car it hopes will spearhead its push into Europe and precede a new generation of lightweight, compact, low-emission products.

The new hatchback, known as the Vitz in Japan and the Yaris in Europe, is targeted at European buyers and will be built at the company's new plant in Valenciennes, northern France, from 2001.

Although the car will not be sold in Europe until April, Japanese sales began yesterday. Toyota hopes to sell 9,000 units in Japan and 10,000 units in Europe a month. The vehicles for Europe will initially be exported from Japan, with production gradually switching to the French plant.

The unveiling coincided with the appointment of Akira Imai as the new president and chief executive of Toyota Motor Europe, the group's regional subsidiary. Mr Imai, previously Japan-based general manager of Toyota's Europe and Africa division, should provide new impetus to its sales ambitions in Europe.

Toyota said it had no plans to market the new car in Asia or the US. However, the Vitz/Yaris reflects many of the design cues seen on the new Echo saloon, intended for US buyers and unveiled at the Detroit motor show last week.

The Vitz/Yaris, developed on a new platform, will be sold as a three- and five-door model, powered by an economical four-cylinder 1 litre engine. Among other features designed to appeal to environmentally conscious Japanese and European buyers are widespread use of recycled and recyclable materials in the bumpers, frame and interior.

Toyota said the car, conceived four years ago, would help to boost its plans to raise European sales. Toyota's registrations in Europe have lagged behind Nissan, Japan's second biggest carmaker, which was the first to build a car factory in Europe. However, last year, Toyota for the first time overtook its smaller rival.

"Going forward, we plan to continue the momentum by doing even more in Europe for Europe," said Mr Imai. "Our intention is to transform Toyota into a major European player. That means producing an increasing percentage of our total European sales locally."

Output at the Valenciennes plant, Toyota's second car factory in Europe, where building work started last November, is forecast to reach 150,000 units a year with about 2,000 workers.

In the driving seat: Hiroshi Okuda, Toyota president, reveals the Vitz/Yaris in Tokyo yesterday Reuters

Manila to sell stake in Meralco

By Tony Tassell in Manila

The Philippine government aims to raise more than 9bn pesos ($237m) through the sale of a 10 per cent stake in Manila Electricity Co (Meralco), the country's largest power distributor.

The government plans to divest itself of the stake through an international issue of sovereign bonds, convertible into Meralco shares in five to seven years.

Edgardo Espiritu, finance secretary, said the government aimed to complete the issue by the middle of February to take advantage of current "uptick" on the Philippine stock market.

The issue is expected to be the first of a series of sales of equity in state-run companies and privatisations planned by the administration under a programme agreed with the International Monetary Fund.

Other candidates for sale include Philippine National Bank, the ailing state-controlled bank; Petron, the petrol refiner and distributor; and the long-mooted privatisation candidate National Power Corp (Napocor), the largest state-owned utility.

The decision to sell the government stake in Meralco comes at a time of increased takeover speculation surrounding the company, which is controlled by the Lopez family – one of the Philippines' oldest, and once most powerful, business dynasties – through a 16 per cent stake.

The Lopez family was stripped of much of its economic and political influence by the dictator Ferdinand Marcos, but has made a remarkable resurgence in Philippine corporate life since the "People's Power" revolution in 1986. Its interests now range from banking to telecommunications.

Over the past few months speculation has risen about the emergence of rivals for control of Meralco, principally Eduardo "Danding" Conjuangco.

Rumours on the Philippine stock market and in the press have suggested Mr Conjuangco, a former Marcos associate with close links to President Joseph Estrada, was considering selling his controlling stake in San Miguel, the brewing and food conglomerate, to finance a takeover of Meralco.

Analysts said it was unclear how the convertible bond issue would affect this takeover speculation. Although the government will be selling its stake, it will retain voting rights over the equity until the conversion of the bonds – one reason for the chosen route of divestment.

As two government financial institutions together hold another 20 per cent stake, the government would still have a big say in any attempt to wrest control from the Lopez family.

Press reports suggested Meralco had been wooing three foreign companies – Electricité de France, National Power and Powergen of the UK – to buy the government's stake and join it as a strategic partner.

Thai property body to maintain holdings

By Ted Bardacke in Bangkok

The Crown Property Bureau, the investment arm of the Thai royal family, intends to maintain its stakes in Siam Commercial Bank and Siam Cement despite an 80 per cent drop in income during 1998, Chirayu Isarangkun na Ayutthaya, director, said.

The secretive Bureau, with large holdings in finance, industry, property construction, media and food processing, said it had enough retained earnings to maintain its 25 per cent stake in Siam Commercial Bank. The bank recently applied for government assistance to raise at least Bt40bn ($1.1bn) in new capital and the Bureau was likely to invest about Bt10bn to keep its stake, analysts said.

Some observers doubted that the Bureau could find this amount of cash, given that its two main sources of income – Siam Commercial and Siam Cement – posted losses in 1998. Other investments in property, construction and media, such as Siam Sindhorn, Christiani & Nielsen and Independent Network News, have gone sour. Rents, another big source of income, have fallen.

But Mr Chirayu quashed such speculation this week, saying that although many of the companies in which the Bureau had invested were in trouble, the Bureau had no debts to service. "I can assure you that we have enough money to participate in the bank's capital increase," he said.

Siam Cement, recently transformed into a holding company that will spin off stakes in a number of subsidiaries, does not need new capital and the Bureau, which owns about 35 per cent, supported the company's restructuring plan, Mr Chirayu said.

Circle K, Sunkus deny deal is done

Alexandra Harney

Trading in Circle K and Sunkus was suspended yesterday following reports that they were on the point of merging, in a deal that would create Japan's fourth largest convenience store operator with nearly 5,000 outlets.

Both companies firmly denied a newspaper report that a merger was imminent.

The two agreed to merge in principle last November, when Circle K, which is part of the Uny retail group, spent an estimated Y40bn ($358m) buying a 51 per cent equity share in Sunkus. Although a joint committee of executives is considering a merger, it was also possible that the two brands would be maintained separately, Sunkus said.

The companies were locked in a debate over how to link the computer, distribution and sales networks, they said. Sunkus, which called a press conference to dispel the reports circulating in the market, said that differences in royalties were also a sticking point.

"Our ultimate goal is to merge. But there are many details involved in that process, and resolution of those issues takes time," Circle K said. If the merger talks were successful, joint operations could begin by 2001 or 2002.

The Tokyo Stock Exchange suspended trading in both groups for several hours after a morning news report suggested a merger was imminent.

Shares in Circle K, which had tumbled since December, ended the day Y220 or 4.6 per cent higher at Y5,000. Sunkus closed at Y2,315, down Y35.

The scuffle highlighted the pressures on Japanese convenience store operators, as three chains – Seven Eleven, Lawson and FamilyMart – have won the lion's share of the market and overcapacity is squeezing smaller operators out.

The second-tier chains moved to join operations to improve profit margins through economies of scale, better leverage with product distributors and savings from overlapping operations.

Asahi appoints new president

By Julie Hess and Alexandra Harney in Tokyo

Asahi Breweries topped off a strong year yesterday by appointing a new president and promoting the chairman, Hirotaro Higuchi, who is credited with much of the company's recent success, to honorary chairman.

The company's directors elected Shigeo Fukuchi, 64-year-old vice-president, to take over as president from Yuzo Seto, who will become chairman from next week.

The reshuffle comes after Asahi overtook its rival Kirin as the leading beer producer in Japan in 1998, the first time its sales have exceeded those of its arch-competitor in 45 years.

Asahi's shipments increased 5.6 per cent to 2.46m kilolitres, while Kirin's shipments dropped 17.2 per cent to 2.38m kilolitres. Asahi's sales were boosted by the huge success of Asahi Super Dry.

Kirin, in contrast, has struggled to develop innovative and popular products. Asahi recorded a 39.5 per cent market share, against Kirin's 38.4 per cent.

For this year, Asahi forecast an increase in shipments of 10 per cent, compared with last year's 5.6 per cent growth.

However, analysts saw its predictions as optimistic. Taizo Demura, food analyst at Morgan Stanley, said: "In 1999, Asahi will continue to increase its shipments, but at a slower pace of about 3 per cent. The pace of growth is unsustainable."

Meanwhile, Mr Demura expected Kirin to see an improvement in sales this year, as a new advertising campaign resulted in better sales for the second half of last year.

Kirin's 1998 figures do not include low-malt beer, which fall into a low-tax category. Including low-malt beer, Kirin's shipments rose 0.5 per cent to 2.9m kilolitres. Asahi does not produce low-malt beer.

Sapporo Breweries, Japan's third biggest beer producer, recorded a 13.5 per cent decline in shipments to 980,000 kilolitres.

TELECOMS US GROUP LINKS WITH FLAG TELECOM

Global TeleSystems to buy into sub-sea cable system

By Alan Cane

Global TeleSystems Group (GTS), a US-based telecommunications operator focusing on the European market, is planning to invest in a new, $1bn trans-Atlantic cable system in collaboration with Flag Telecom.

Gerald Thames, GTS chief executive, said the new system, the first designed to work at speeds of over a thousand billion bits of information a second, would be critical to GTS's plans to link Europe's leading cities.

He rejected suggestions that GTS and Colt, a fast-growing UK-based operator building networks around Europe's financial centres, were in merger talks. "It takes two to tango and nobody's dancing at the moment," he said, although he revealed that the two companies had had inconclusive merger discussions a year ago.

Flag, which carries telecoms traffic for over 75 of the world's leading operators, is a privately financed venture which has already created a cable system stretching 27,000km from the UK to Japan.

With the addition of the new cable system – Flag Atlantic-1 – the group will cover 40,000km and provide direct access to the telecoms and internet markets of the US and Japan.

Financing will be through a combination of equity contributions from GTS and Flag, sales of capacity to customers, but principally through non-recourse bank debt.

Mr Thames said yesterday there was no shortage of finance for sub-sea cable ventures like Flag Atlantic-1, as the demand for data transmission capacity across the Atlantic was so great.

The new cable system is integral to GTS's plan to become the leading independent operator of telecommunications services for businesses and other carriers in Europe. At the end of last year it bought Esprit, a UK-based operator with its own switches and infrastructure, which had been one of its main European rivals.

GTS's principal vehicle is its majority-owned subsidiary Hermes Europe Railtel, which provides trans-border transport services exclusively to telecoms service providers in Europe.

Mr Thames said yesterday that the group had already sunk enough fibre cabling in the ground across Europe to carry up to 20 times the total current traffic across the continent.

He said that by the end of 1999, GTS would be able to offer long-distance and international services across Europe at a single price. It would be able to offer low prices because, owning a network, it would not have to pay interconnection fees to other carriers.

"Our goal by 2003 is to be one of the top two or three pan European carriers," Mr Thames said.

NEWS DIGEST

AIRLINES

Cut-backs help avert losses at Garuda

Heavy cost-cutting and the rebound of the rupiah helped Garuda Indonesia, the state-owned airline, to avert operational losses for 1998, the company said yesterday. Garuda confirmed reports it had made operating profits of Rp905bn ($112m) for 1998, overturning its own predictions of a $138m loss and fears that its aircraft would be grounded at foreign airports for failure to pay leases.

The airline has yet to offer details, such as net profits, which were Rp191.5bn in 1997, but most analysts still expect heavy foreign exchange losses on some $400m in short-term debt, mostly to leasing companies.

Only six months ago, Garuda was losing Rp3bn a day on cash flow, as bookings dropped and the collapse of the rupiah inflated dollar-denominated costs such as fuel and leasing. But the company slashed padded supply contracts with businesses of former president Suharto and his associates, axed unprofitable flights, laid off 3,000 workers and started spinning off affiliates. A rebound of the rupiah to Rp8,000, from lows of Rp16,000, and the collapse of competing private airlines also helped to avert losses. **Sander Thoenes, Jakarta**

VEHICLE MANUFACTURING

Fuji Heavy set to meet forecast

Fuji Heavy, the manufacturer of Subaru vehicles, said yesterday that strong sales would offset sanctions by Japan's Defence Agency, allowing the company to reach its previous earnings forecast for the year ending March 1999.

Takeshi Tanaka, president, said he was confident that parent pre-tax profits excluding exceptionals would be Y40bn ($358m), a year-on-year decline of 8.2 per cent.

Fuji Heavy was involved in a scandal over bribery payments to a Diet member who was dealing with equipment purchase at the Defence Agency late last year, leading to the arrest of Isamu Kawai, Fuji Heavy chairman. **Julie Hess, Tokyo**

INSURANCE

Yasuda, TCW to expand alliance

Yasuda Fire and Marine, Japan's second largest property and casualty insurer, is in talks with TCW, a US asset management company, to strengthen their existing alliance. In recent months, Japanese non-life insurance companies have been rushing to link up with foreign financial institutions to take advantage of the deregulatory Big Bang reforms.

Yasuda plans to quadruple the assets of its investment advisory subsidiary, Yasuda Kasai Global Asset Management, to Y1bn ($8.9m), of which it hopes to allocate 30 per cent, or Y300m, to TCW.

Last January, the two companies formed an alliance to develop investment trust products. Yasuda hopes that this will become a serious strategic partnership if the current talks are successful.

Last month, Yasuda announced that it planned to form a joint securities company with Cigna International, to take advantage of the US insurance and financial services group's systems capability and its experience in the market. **Naoko Nakamae, Tokyo**

ENGINEERING GROUP PREDICTS 15-20% PROFITS DECLINE AND PLANS TO CUT 1,000 JOBS

Morgan Crucible warns of shortfall

By Andrew Edgecliffe-Johnson

Morgan Crucible, the industrial ceramics and carbon group, warned yesterday that full year profits would see a 15-20 per cent drop rather than the expected slight improvement, thanks to a "swift and savage" downturn in the final months of last year.

It also announced plans for a £15m ($25m) redundancy programme to cut 1,000 jobs among its 15,000 employees.

Morgan shares fell 30 per cent, or 79p, to 183½p, and market makers downgraded a host of other engineers.

Ian Norris, chief executive, who outlined a restructuring and set new targets for the group's performance only last September, said the problems had been caused by customers reducing their stock levels and delaying "significant order volumes" into 1999.

There had been a fall in demand for ceramic refractories from North American steel makers, which deferred their usual winter refits because of competition from Asian imports. Semiconductor industry destocking also damaged the chemical products, engineered carbon and technical ceramics business.

Mr Norris said: "The real pain was concentrated in the fourth quarter of last year, but in the first quarter of this year there is the self-induced pain of a £15m provision."

Although the redundancy programme would hit first half profits, "benefits will be seen in the second half", Mr Norris said.

The main areas for attention are the thermal ceramics fibre business in Europe and the insulating firebricks plant on Augusta, Georgia, but Mr Norris has also changed some divisional management to put in place "a cadre of profit drivers".

"It is very annoying to me that we've had this kick at the end of the year, but on the plus side it really gives a push to the refocusing," he said. The company's five divisions will be compressed to two – carbon and ceramics.

Vic Maundrell, the divisional chairman for technical ceramics, will step down from the board but stay until late 1999 to oversee the previously announced disposals of chemical products, electro optics and power industry products businesses.

The largest disposal, of chemical products, is well advanced. Mr Maundrell is aiming to turn round the performance of the other two to prepare them for sale.

Analysts cut their pre-tax profit forecasts for the year to January 4 1999 from about £110m to about £90m, compared with £108.3m last time. Predictions for the current year to January 2000 varied from £90m to £100m.

Mr Norris had said in September that Morgan's geographic spread would provide "good resilience in uncertain economic times". Yesterday he said currency translation factors were obscuring the gains from Asian businesses, and added: "In the past we always relied on one part of the world doing well."

Sears sells store card business for £139m

By Maggie Urry

Sears, the retailing group, sought yesterday to strengthen its defences against a possible bid from Philip Green, the retail entrepreneur, with the sale of its store card business at a price above expectations.

It said it would give shareholders 141p a share in cash in April, and hinted that disposals of other assets would also generate greater-than-expected value for shareholders.

The shares leapt 35p or 13.5 per cent to 310½p, against the market trend.

Mr Green is expected to announce shortly whether he will proceed with a conditional cash bid of £520m ($874m) or 340p a share, which the Sears board rejected before Christmas.

Sears also released its sales figures for the Christmas period, which indicated a worsening trend at Freemans, the mail order business Sears has so far failed to sell or demerge, and dull sales at its clothing stores.

Sears has agreed to sell its Creation store card business for £139m, net of expenses, to Groupe Cofinoga, a retail credit card operation part-owned by Galeries Lafayette, the French retailer, and Banque Nationale de Paris, the bank, which is also a shareholder of Cofinoga.

The sale price, apparently the result of an auction, was above analysts' highest forecasts, which ranged from £100m to £125m.

The proceeds will be passed to shareholders, along with the cash from previous disposals, raising the amount to be paid from £84m to £215m, or 141p a share.

Sears said it was in advanced negotiations to sell a number of its development properties, and it was confident the portfolio would realise "significantly in excess" of its book value of £134m.

It said it would separate Freemans from the group "when market conditions are appropriate". Analysts believe this could raise another £150m.

That would leave a core of the clothing chains, including Adams, Wallis, Warehouse, Miss Selfridge and Richards, which operate from properties worth £90m.

Sir Bob Reid, chairman, said Sears had made significant progress in returning value to shareholders. However, a supporter of Mr Green said a bid at 340p would give shareholders cash in the short term, rather than promises of more in the longer term.

He said: "Of course Sears is worth more than 340p; Philip Green wants to make a profit. Sears has done one good deal, but can shareholders trust them to do more?"

Sears said its clothing chains suffered difficult trading in October and November but did better at Christmas, leaving comparable store sales down 1 per cent in the 23 weeks to January 9.

At Freemans, sales in the 23 weeks fell 5 per cent. Customers returned goods at a higher rate, and gross margins slipped.

The upstairs and downstairs of stock market society

Philip Coggan examines the class distinction that separates telecoms and pharmaceutical concerns from industrial groups

The UK stock market has been divided into "two nations". The "upper classes" are the pharmaceutical and telecommunications companies, commanding fancy ratings and looking down from their lofty heights on the "lower classes", the unloved and little-rated industrial groups.

"I can't remember anything as extreme as this," says Richard Jeffrey, Charterhouse group economist, contemplating a market in which the pharmaceutical and telecom sectors both trade on historic price-earnings ratios of more than 50, while the industrial group languishes on a multiple of 13. And the lowliest sector of all, paper and packaging, can only achieve a rating of less than 8.

The key to this stark division is investors' different perceptions of the growth outlook. Both the telecoms and pharmaceutical sectors seem to hold out the prospect of healthy earnings this year, and that growth also comes with a measure of security.

In the case of the telecoms sector, investors are excited about growth prospects for the mobile phone business and for the use of the telecom network to transmit non-voice information.

Pharmaceuticals companies offer two levels of security: on sales – people will continue to get sick, whatever the state of the economy – and on margins.

The high barriers to entry in the pharmaceuticals industry, in terms of regulatory requirements and heavy research and development costs, make the sector one of the few areas of the economy with genuine pricing power.

Contrast this with the harassed industrial sector. Manufacturing companies have been struggling for some time with a strong pound, but they also face the problem of overcapacity in many areas at a time when the world economy is slowing.

Those groups at the commodity end of the sector have faced steadily falling prices for their goods, and the same pressures are now being felt by the more specialised companies.

Earnings forecasts for industrial stocks in 1999 have been steadily revised down and "top-down" strategists think that profits will be flat-to-falling this year.

Nevertheless, the contrast in valuation terms is unusually stark. The pharmaceuticals sector commanded a p/e of less than 15 as recently as 1994 and has moved from being on a rating only 70 per cent of that of the overall market to a multiple more than twice that commanded by the FTSE All-Share index. Over the same period, the general industrials group has fallen from a rating 1.8 times that of the market to a multiple just 60 per cent that of the All-Share.

One reason for the shift seems to be that investors have nowhere else to go. Short-term interest rates are falling and bond yields are at 40-year lows.

Industrial stocks may look relatively cheap, but their earnings forecasts are highly uncertain and the sector regularly disappoints the market by issuing profit warnings.

"Institutions are cash-rich, having received cash from the corporate sector [in the form of share buy-backs and takeovers] in each of the last three years," says David McBain, UK strategist at BT Alex Brown.

"When they look at the market, they prize earnings stability and growth at a time when earnings forecasts generally are taking a marked downturn."

The scope for further takeover activity is another factor pushing investors towards the leading sectors. Among the drug stocks, Zeneca has linked with Astra of Sweden – although there are rumours of a Glaxo Wellcome interest – while in the telecoms sector, Vodafone has bid for AirTouch of the US and Cable and Wireless is seen as a takeover target.

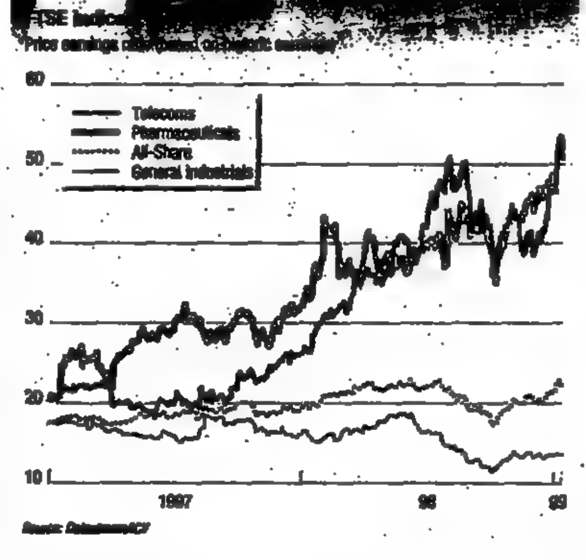
Finally, Mr Jeffrey points to a "herd mentality" which naturally gravitates towards the best performing sectors, particularly as they are filled with large, highly liquid stocks.

So has the division gone too far? Analysts cannot recall either the telecoms or pharmaceutical sectors trading on such a high p/e in the past. BT Alex Brown expects both sectors to produce earnings growth of 15 per cent this year. Dividing the p/e by the expected growth rate – the so-called Peg – produces a figure of more than 3, when stocks trading on a Peg above 2 are usually seen as expensive.

One caveat concerning the telecoms sector, however, is that it contains some stocks, such as Orange, which have yet to make a profit, so the rating may be distorted.

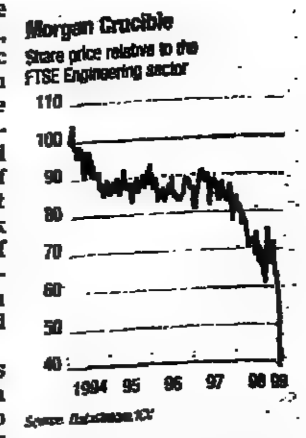
On the other side, the gloomy outlook means that even "value" investors might find it hard to get enthusiastic about industrial stocks at the moment. But Mr Jeffrey thinks that "the ratings may overstate the problems facing these companies. At some point, not even good news but just OK news would allow the stocks to rally and on a two-to-three year view, their value could be exposed."

In other words, the meek could yet inherit the market.



COMMENT

Morgan Crucible



Oh dear. Morgan Crucible was supposed to be resilient, thanks to its geographic spread and niche products. In fact, about half its sales are in the US, where the economic miracle has deserted manufacturers. And some of its technology has proved hit and miss: witness stock ruined by the wrong sort of clay. Ian Norris, chief executive for a year but far from new to the group, should have been tougher sooner.

Morgan's malaise has echoes elsewhere in the sector. In the good years, from 1993 to 1997, it improved operating profits by about 50 per cent. But sales rose only 12 per cent. Last year it kept going on on about margin improvements, even though price rises became so much harder for manufacturers. It has huffed and puffed to make bolt-on acquisitions, and a few disposals, only to stand still. Indeed its net debt has gone up by about 75 per cent in the past couple of years.

But surely only the detail of this profits squeeze is new. Morgan's single digit price/earnings ratio was already low enough to suggest further downgrades. Now it is so cheap – 1998 p/e of seven, net yield close to 9 per cent – that the question is whether it will rationalise itself or be subsumed by a rival. That could be asked of much of the sector. The 50-plus constituents have a combined market value of £42bn – half BP Amoco's.

Dixons

Some ideas are so simple they catch the market by surprise. Dixons' free internet service is one of them. It has 700,000 active users after just 16 weeks. If only selling washing machines were that easy. These are early days. The big guns from America, such as AOL, may try to blast Dixons out of the water. But being among the first counts for a lot, and Dixons is building on that by adding new services. Whether UK webheads are worth the same as US ones is another matter. US internet service providers charge subscriptions and Dixons does not. The business model is different, but airlines, banks and entertainment groups will still pay to access those eyeballs. Meanwhile, on the shopfloor, Dixons' interims underpinned its premium to the sector. Trading in white goods is tough, but like-for-like Christmas sales were still 3 per cent up. UK investors prefer their internet glamour to come with a profit.

Dixons records internet growth

By Alison Smith

Dixons, Britain's biggest high street electrical and electronics retailer, expects its free internet service to break even this autumn – only a year after its launch last September.

The company said yesterday that in the first 16 weeks of the internet service, Freeserve attracted 900,000 registered accounts, of which 700,000 are active users. Customers are not charged subscription, but pay local call charges.

John Clare, group chief executive, said more new customers and greater usage by existing customers meant that Dixons now thought the service would break even sooner than originally expected.

He also indicated that the group saw considerable opportunities from the growth of electronic commerce in the UK, particularly in sectors such as financial services and travel.

Freeserve's progress was announced as Dixons said that over eight weeks of the Christmas season its retail sales had risen by 3 per cent on a like-for-like basis. Strong sales of personal computers and mobile phones had been offset by slower sales of domestic appliances.

A similar pattern emerged from the sales figures for the 28 weeks to November 14: The Link saw a 14 per cent rise in like-for-like sales, and PC World was three per cent ahead on the same basis.

Interim pre-tax profits were £68.9m ($116m), against £76.3m, after £12m in exceptional charges this time which relate largely to the integration of the retail business of Seeboard, acquired last June.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Banks (Sidney C)	Yr to Oct 31	144.2	(201.5)	2.88	(2.16)	19.8	(15.1)	4.75	Apr 1	4.25	-	11.5
Birmingham City ♦	Yr to Aug 31	8.34	(7.82)	3.57L	(1.13)	7.23L†	(2.52)	-	-	-	-	-
Dixons	28 wks to Nov 14 ★	1,456	(1,316)	68.9♠	(76.3)	11.8	(12.5)	3.5	Apr 6	[illegible]	-	12.7
Dudley Jenkins	6 mths to Oct 31 ★	13.4	(13.4)	2.3	(1.65)	[illegible]	(8.12)	2.9	Apr 12	2	-	6.5
FI	6 mths to Oct 31	108.9	(71.2)	7.55	(4.31)	2.62	(1.98*)	0.63	Apr 7	[illegible]	-	1.3*
Helton ♦	6 mths to Oct 31	97.3	(84.2)	6.3	(5.74)	9.34	(8.22)	3	[illegible]	2.1	-	4.9
Vega	6 mths to Oct 31	12.9	(10.4)	1.43	(0.805)	6.1	(3.49)	2.13	Feb 26	1.91	-	5.41

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
[illegible]	6 mths to Nov 30	113.43	(88.57)	0.362	(0.234)	4.78	(3.11)	3.625	Feb 26	3.375	-	9.25

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦Alm stock. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. *Adjusted for scrip issue.

Mirror board 'united' over talks

By John Gapper, Media Editor

Mirror Group, the newspaper group, yesterday insisted that its board was united over stalled merger talks with the regional publisher Trinity, and its senior executives were needed to make any combination work.

David Montgomery, Mirror chief executive, said its managers could extract higher cost savings from a combined entity than had been estimated by Trinity directors in merger talks that were called off earlier this week.

His remarks follow suggestions from Trinity that the talks failed over the issue of the role that would be played by him in a combined group. Trinity wanted Mr Montgomery to retain limited responsibilities following a merger.

Phillips & Drew, the investment institution that owns 22 per cent of Mirror, has indicated that it wants the merger to proceed on terms suggested by Trinity. The combination would create a group with a market value of £1.3bn ($2.2bn).

Mr Montgomery said that Mirror's executives believed there was a "much higher level of synergies to be extracted from a joint company" than Trinity had suggested, and had a track record of elimination similar duplication.

NOTICE TO THE HOLDERS OF
NIPPON OIL COMPANY, LIMITED

(1) U.S.$ 50,000,000 3% per cent. Convertible Bonds 1999
(2) U.S.$ 70,000,000 3 per cent. Convertible Bonds 2000

[illegible]

Nippon Oil Company, Limited

13th January, 1999

By: The Sakura Bank, Limited as Principal Paying Agent for the Bonds due 1999

By: The Dai-Ichi Kangyo Bank, Limited as Principal Paying Agent for the Bonds due 2000

هكذا من الاصل

PROFILE KENSHIN OSHIMA, SHOHKOH FUND

Profit without honour in Japan

The little-known billionaire explains to **Gillian Tett** why Japan needs more successful businessmen like him

Not many Japanese executives can look back on 1998 with glee. Kenshin Oshima, though, is one of them.

Shohkoh Fund, the finance company he founded, has just notched up 20 years of double-digit profit growth. Mr Oshima, 50, has been named Japan's 11th richest man, worth an estimated $1.8bn.

"I am *addicted to success*," declares a cheery Mr Oshima, who cites the financier Sigmund Warburg and the Rothschild dynasty as his inspirations. "I have planned to be a billionaire ever since I read about the Rothschilds aged 12 – I have to keep succeeding."

By Japanese standards, this is striking stuff. What is more startling, however, is that most Japanese have either never heard of Mr Oshima – or else regard him with disdain.

For while personal success stories like Mr Oshima's *are* still emerging in Japan in spite of the corporate gloom, they are not usually in businesses that many foreigners would traditionally associate with Japan. Nor do these "good news" tales involve sectors the Japanese themselves like to admire.

"People [in Japan] think that I am as bad as Scrooge from Dickens's *A Christmas Carol*," admits Mr Oshima with a chuckle, waving an arm adorned with an expensively understated watch.

Mr Oshima's company specialises in making "flexible" loans to small companies, usually about Y4m ($35,778). Such business is regarded as shady by respectable Japanese because in the 1980s it had a reputation for using strong-arm methods of debt collection and charging high interest rates. Shohkoh, for example, can charge more than 20 per cent on some loans.

As Paul Heaton, analyst at Deutsche Morgan Grenfell, explains: "Some Japanese still will not buy their shares because the sector does not have a clean image."

Mr Oshima retorts that his business flourishes only because Japan's "respectable" banks are too inflexible to meet consumers' needs. Banking is too overcrowded and regulated to make profits, he adds.

"To be successful you need a strategic niche with lots of demand," he says in polished English. "But you also need a sector with a bad image, because it attracts less competition."

Such logic has certainly served him well. After an early stint as a "salaryman" at Mitsui Trading company, he founded Shohkoh in 1978. His business expanded rapidly during the bubble of the 1980s. It also survived the ensuing crash, since Mr Oshima decided to slash property lending in the late 1980s, after reading a history of the US 1929 depression.

The business has since remained recession-proof: between 1991 and 1998 profits rose from Y2.6bn to Y29bn and sales grew from Y10bn to Y61bn. This is partly because the banks have been cutting lending. But Mr Oshima has also

'I have planned to be a billionaire ever since I read about the Rothschilds aged 12 – I have to keep succeeding'

proved far more deft at credit control than most banks.

However, he is far from the only successful unorthodox entrepreneur. A glance at the list compiled by Forbes, the US magazine, of his 10 fellow business billionaires, for example, bears little resemblance to the image of Japan's post-war manufacturing might.

The list still contains a couple of real estate names, such as Yoshiaki Tsutsumi, worth $5.7bn. But there are only three families linked to manufacturing: Keizo Saji, the distiller; Masayoshi Son, the multimedia magnate; and Masahito Otsuka, a drugs giant. The largest business grouping, with four names, are the founders of non-bank finance groups, such as Mr Oshima.

Data from the National Tax Administration echo the tale. This year half the country's 100 top income tax payers made their money from land or shares – compared to 98 in 1992. But this group contained only a couple of names linked to Japan's traditional industrial jewels: Shoichiro Toyota, president of the automotive group, and Hiroshi Yamaichi of Nintendo.

The top slot was taken by Hitori Saito, an entrepreneur who sells herbal diet food to women. And the finance barons accounted for almost a dozen names. "It is a great honour to be listed," declares Yasuo Takei, who founded Takefuji, the consumer finance group, after starting life as a fruit seller.

This "honour" is already leading some entrepreneurs to scramble for more respectability. The Jinnai family at Promise, another consumer finance group, recently produced a booklet explaining the "ethics" of their business. And when Dai-Ichi Kangyo Bank recently indicated it could no longer afford to sponsor a prestigious football tournament, Mr Takei offered to step in. He is particularly proud of an award he received from the Pope after he paid for an air conditioning system at a Vatican library.

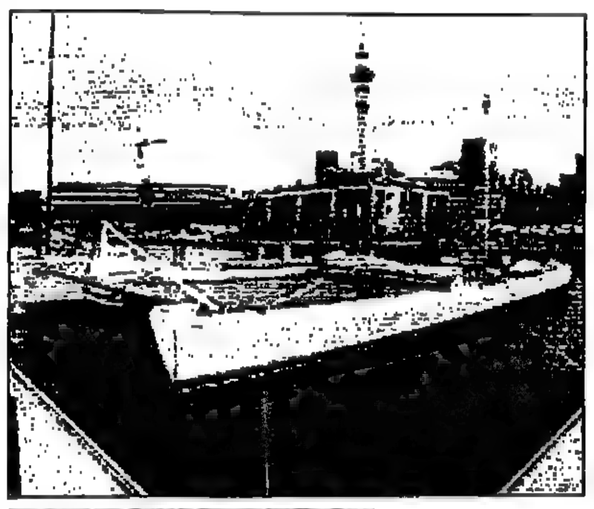
Mr Oshima, for his part, now has an office next to the Bank of Japan. He also wears exquisite suits. But he has not lost his defiance. Since Japanese investors shun his shares, he markets them to foreign investors, who hold 40 per cent of the company. He is convinced Japan will need to adapt to entrepreneurs like him – rather than the other way round.

Unless Japan can undergo a cultural revolution and embrace capitalist competition, it will never return to economic strength, he argues with passion. After all Japan has changed course before, he adds. And the stifling system of hierarchical "permanent employment" is only a post-war creation. "Young people are changing – they don't believe in permanent employment any more. They want to be like Bill Gates or Richard Branson."

Oshima: "You need a sector with a bad image, because it attracts less competition"

Or like him? Mr Oshima briefly looks abashed. Yes, he explains, he has recently written a business manual designed to inspire the younger generation (*Young Men With Shining Eyes*). And he believes there are now "lots of opportunities" in Japan for entrepreneurs. But he has little hope that the government will promote him as a suitable role model. "The establishment never likes newcomers," he admits with a chuckle. "I don't think that will change soon."

Additional reporting by Mitsuko Matsutani and Julie Hess



Sea monster: first challenger for The Race

TECHNOLOGY SAILING

Sail around the world in 60 days

Steve Fossett plans to set records with monster catamaran PlayStation, writes **Keith Wheatley**

Steve Fossett missed an important engagement as the balloon capsule he was sharing with Richard Branson ditched in the Pacific last Christmas Eve.

The millionaire adventurer should have been at an Auckland boatyard for the launch of a 32m-long racing mega-catamaran, his latest project.

PlayStation, named in recognition of the Sony sponsorship that paid for it, has been built to compete in The Race – a non-stop, no-assistance round-the-world race for crewed yachts, due to start from the Straits of Gibraltar on December 31 2000.

Many of the world's top professional sailors are planning to build boats for the event. Most are multihulls, with just one or two designers opting for conventional monohull yachts of 50m or more.

The winner will need to circumnavigate in about 60 days, averaging about 25 knots. The record for a circumnavigation under sail is 64 days.

Mr Fossett sent a videotaped message to the launch of PlayStation, the first challenger for The Race to hit the water. He expressed his optimism that the advantage this gave him over the opposition improved his team's chances of winning by the day.

Secrecy made the catamaran's debut one of the most keenly awaited new-boat launches of the decade. The boatbuilders, New Zealand-based Cookson Boats, were forbidden to discuss the existence of the yacht with the media and only a small, handpicked team saw the hulls take shape.

PlayStation's hull, designed in San Diego, California, by Gino Morrelli and Pete Melvin – two well-known multihull architects – is constructed from carbon fibre.

The brief was as simple as it could be: Mr Fossett wanted "the best boat for racing fully crewed, non-stop, around the world, as fast as possible". No budget. No limits.

The designers used a catamaran "velocity prediction program" developed by Mr Morrelli and Clay Oliver for Dennis Conner's US team during the 1988 America's Cup campaign.

This software enables the designers to input hundreds of variables to describe a boat – such as length, weight, hull size and so on – without the expense and time of building models.

Different possible weather conditions and wind variables were also taken into account, together with the demands and limitations of round-the-world yacht racing with the minimum number of crew.

PlayStation's composite mast – produced by Southern Spars, another Auckland company – towers 45m above the water and is supported by intricate rigging.

Numerous computer models were run using Southern's in-house rig programs before the geometry was decided.

The result is a lightweight carbon tube supported by aramid and nitronic artificial fibre stays, and engineered to endure the extreme stresses and conditions of a record attempt and a non-stop race around the world.

The mainsail is supported by an 18m carbon boom, that has a unique sliding mainsheet system to ensure constant sheet load. With such an immense mainsail, the boom has wings to support the sail when it is lowered.

The attempt for the 24-hour distance sailing record, first on the list of targets for the yacht, is likely to take place towards the end of January, weather permitting. Mr Fossett is expected to be on board.

At 52, Chicago-based Mr Fossett – an accomplished adventurer and sportsman – remains a driven man. In turns long-distance swimmer, climber of the world's highest peaks, racing car driver, balloonist, and holder of the longest solo flight in a hot-air balloon (5,438 miles), his latest challenge could be the toughest yet.

MANAGEMENT WORK/LIFE BALANCE

Slaves on technology's treadmill

Many employees feel under pressure to work all hours – but at what price to companies and themselves? asks **Alison Maitland**

Do you ever e-mail your staff at midnight and find them still working? Or check your voice-mail before you go to bed just in case a client wants to speak to you?

Technology is driving many employees to work at all hours, a tendency that worries personnel directors, says the Conference Board, an international business research organisation.

Much has been made of the employment benefits of advanced telecommunications: more opportunities for flexible working; greater productivity; more time for family life. But technology can enslave rather than liberate people, according to the Conference Board.* "People are now accessible everywhere, leaving less time to get away from work," author Deborah Parkinson says.

Kathy Gallo, personnel director at Andersen Consulting in the US, says at least 30 per cent of the audience at her seminars on the work/life balance check their voice-mail at 10pm in case a client needs them.

The report cites the case of a manager at Gannett, the US media group, who worked at home all day and all night because he had a project to complete and the technology was available.

Ted Childs, head of workforce diversity at International Business Machines, says he has heard of people on holiday having to spend one or two hours a day checking voice messages and e-mail.

Companies must ask at what price they have gained 24-hour access to staff, he says. "Promoting productivity while disrupting morale or our ability to retain employees is not equitable. It is not a return that any of us wants."

Mr Childs, a member of the Conference Board's work/life leadership council, says IBM is seen as a pioneer of policies allowing staff to balance their work and home lives. "But what we hear from our people is that they don't have access to those policies – there is so much pressure on them to be available all the time." He cites an IBM executive who sent an e-mail at about midnight and received a response immediately.

The Conference Board, with 3,000 corporate and other members in 65 countries, acts as a forum for exchanging ideas about business practice. The report was based on a survey of senior human resources executives in 82 companies on the board's work-family research and advisory panel, which has members in North America, Australia and Europe.

It concludes that inadequate guidelines from companies about technological communication outside business hours can cause employee burnout. "If the employee is already insecure or has a tendency to be a workaholic, that will exacerbate the situation," Ms Parkinson says.

Most respondents said employees were not expected to check voice-mail or e-mail outside standard work hours, 15 per cent said they were – and not only outside working hours but also at weekends and during holidays.

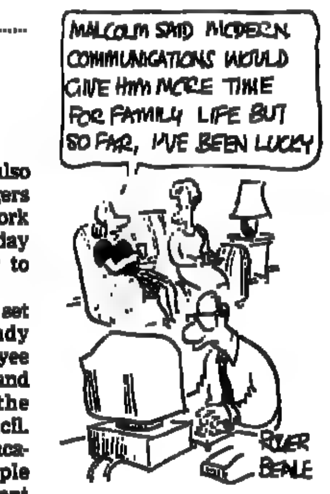
More than 80 per cent of the companies gave staff the option to telecommute – using technology to work away from the office – although on average only 6 per cent of employees did so.

The report says supervisors should be trained to manage telecommuters and should define the hours and tasks expected of them; only a third of the companies offered such training. It also recommends that managers monitor the hours staff work outside the normal office day and advise them on how to avoid stress.

Senior managers must set an example, says Sandy Fazio, manager of employee programmes at Gannett and another member of the work/life leadership council. "If your manager is on vacation and e-mailing people daily, that sets a precedent for other people at the company." Managers should expect answers from staff only during business hours, regardless of when they themselves work.

But the report indicates most companies are not yet taking concrete steps to tackle the problem. "There are not that many formal policies in place," Ms Parkinson says. "I think it is because people are concentrating on the positive aspect [of the technology]."

It seems the onus is being put on employees to set their own boundaries. The workaholic manager at Gannett disciplined himself to switch off. He no longer feels he has to solve every problem immediately – although he still checks in once or twice each evening.



**Technology's Effect on Work/Life Balance, available from 212 339 0345 (New York) or 00 322 675 5405 (Brussels) or brussels @conference-board.org. Price $15 for members, $60 for non-members.*

TECHNOLOGY WORTH WATCHING

Genetic insight may help beat the H.pylori bug

The bacterium *Helicobacter pylori*, believed to infect more than half the world's population, is linked with numerous problems, from peptic ulcers to stomach cancer. A new insight into *H. pylori*'s genetic structure, published in today's Nature, *the scientific journal*, promises to make it easier to fight the bug.

Scientists have usually assumed that the involvement of *H. pylori* in a large range of diseases stemmed from the genetic diversity of different strains. But when researchers at Genome Therapeutics Corporation and Astra Research Corporation, both based in Massachusetts, compared two complete genomic sequences of two strains of the bacterium they found a surprising degree of similarity. By identifying *common genetic targets* across two strains of the bacteria, designating targets for new drugs and vaccines should become simpler.

Astra Research Center: US, tel 6175763900; e-mail richard.alm@arcb.us.astra.com

On a molecular scale

US researchers have built a prototype of a nano-robotic "arm", in a development that could lead to molecular-scale manufacturing.

The New York University scientists used synthetic DNA as a building material to construct a minute device with two rigid arms that can be rotated between fixed positions. The DNA can be "programmed" to assemble itself in a well-defined manner because the two strands pair up in a specific way. Dye molecules attached to the free ends of the molecules can be shown to move 20-60 angstroms when the arms are rotated.

The researchers, who report their results in today's Nature, believe that complex nanomechanical motions might be possible using a *combination of synthetic* DNA systems.

New York University: US, tel 2129986797; josh.plaut@nyu.edu

Laser bonding

Bonding two pieces of plastics is usually a complicated business involving heat or solvents. Researchers have been investigating how to use lasers to weld plastics but this usually requires one of the plastic components to be transparent.

A laser bonding technique developed at the UK's University of Warwick promises to overcome these barriers, using a compact high-powered diode laser that allows some plastics to behave as if they were transparent. The laser light can reach the interface between the two components, and can quickly bond a range of plastics to rubbers, plastics to foams and foams to foams.

University of Warwick: UK, tel (0)1203 522650; http://www.warwick.ac.uk

Light-bending crystal

Researchers at the Sandia National Laboratories in the US have developed a microscopic light-containing artificial crystal that could have significant implications for the fibre-optics communications industry. The photonic crystal promises to become the cheapest, most efficient way of bending light entering or emerging from optical cables, the researchers say.

The crystal, the smallest of its type ever fabricated, is made from tiny slivers of silicon that can trap and *bend electromagnetic waves* at optical frequencies with negligible losses.

Sandia National Laboratories: US, tel 9252942447; http://www.sandia.gov/mail.htm

Brown study

When apples are cut, they usually turn brown within minutes. They can be treated against browning by being dipped in ascorbic acid, but this usually extends shelf life by just five to seven days.

US government *researchers have devised a* method of preventing browning for as long as five weeks after the fruit has been cut open. Researchers at the US Department of Agriculture in Beltsville believe it could have a significant impact on the marketability of fresh-cut fruit. The anti-browning treatment, made of natural compounds or their derivatives, also slows down microbial decay and delays the changes that occur in organic acids and sugars during storage.

American Chemical Society: US, tel 2028724445; http://www.acs.org/

Vanessa Houlder

EURO PRICES

EQUITIES

Brazil crisis gives frantic Europe a jolt

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets fell to earth with a jolt yesterday as developments in Brazil a de facto devaluation and the resignation of the central bank governor sent investors rushing out of already overbought equities.

Wall Street's initial steep decline appeared to confirm the slump, but the US began to pull back from its lowest levels in the early afternoon and this helped European markets to close above the day's worst positions in often frantic trading.

The FTSE Eurotop 300 index of leading shares fell 46.26 or 3.8 per cent to 1,169.65, while the FTSE Eurotop 100 index fell 116.17 or 4.12 per cent to 2,706.83. The FTSE Ebloc 100 index of shares in euro-zone countries closed 46.28 or 4.5 per cent lower at 982.95.

Banks, exporters and companies with substantial investments in Brazil, the world's eighth largest economy, and elsewhere in the region bore the brunt of the losses. The Spanish market, whose constituents are big investors across Latin America, was the biggest single casualty.

The banking sector tumbled 5.5 per cent, with BBV €1.80 lower at €11.69 and Santander slumping €2 to €14.28. Other big lenders followed suit BNP fell €5 to €68.10, Société Générale was down €11.10 to €141.80, and Deutsche Bank was €3.90 lower at €50.

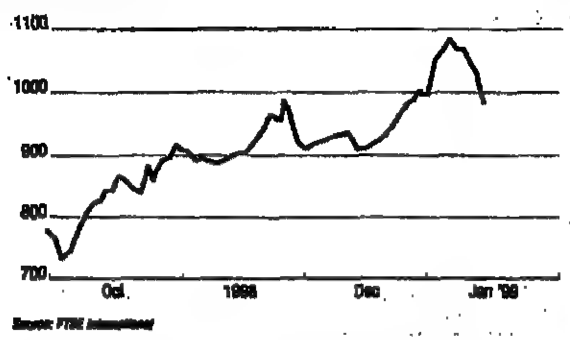
Autos fell nearly 5 per cent on fears about the impact of the Brazilian crisis on demand and production in the region. Volkswagen, preparing to open a new plant in Brazil, was €3.60 lower at €70 and BMW fell €31 to €651. Renault, which is already there, fell €3.50 to €37.60. DaimlerChrysler, soon to open a new Brazilian operation, ended €4.70 down at €86.30.

Telefónica, one of the single biggest investors in Latin America, led the telecommunications sector 4 per cent lower, closing down €3.30 at €36.72.

Food and drink stocks, which are big exporters to the region, were also hit. Diageo was 50 cents lower at €9.34, Eridania was €8.20 down at €135.80, and Unilever fell €4.20 to €67.80.

Away from Brazil, luxury goods shares continued to watch a possible bid for Prada by LVMH, which fell €13.40 to €193. Technology stocks remained weak. Cap Gemini fell €3.90 to €132.10.

FTSE Ebloc 100
Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Jan 13

National & Regional Markets	Euro index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1169.65	-3.80	-46.26	2.32	0.26	1204.63
FTSE Eurotop 100	2706.83	-4.12	-116.17	2.37	0.67	970.52
FTSE Ebloc 100	982.95	-4.50	-46.28	2.12	0.26	998.01
FTSE EuroMid	1132.20	-3.37	-39.45	2.95	0.41	1173.56
FTSE EuroMid Ebloc	1194.25	[illegible]	-41.40	2.32	0.68	1220.19
FTSE Eurotop 15 UK	1205.34	-3.85	-48.28	2.26	0.46	[illegible]
FTSE Eurotop 300 Regions						
Eurobloc	1229.38	-4.30	-55.29	2.06	0.30	1255.99
UK	1076.64	[illegible]	-35.75	2.78	0.30	1130.73
Europe Ex-Eurobloc	1120.16	-3.26	-37.76	2.61	[illegible]	1160.46
Europe Ex-UK	1222.93	-4.09	-52.21	2.10	0.25	1246.04
FTSE Eurotop Industry Sectors						
RESOURCES	838.10	-2.88	-24.85	3.40	0.00	876.42
Mining	741.00	-2.61	-19.86	4.62	0.00	756.65
Oil & Gas	810.58	[illegible]	-24.12	[illegible]	0.00	830.20
BASIC INDUSTRIES	1037.97	[illegible]	-24.66	2.78	0.00	1060.05
Chemicals	809.94	-1.67	-13.78	2.76	0.00	824.24
Construction & Bld Matls	890.49	-4.38	-40.81	2.59	[illegible]	898.18
Forestry & Paper	867.85	-2.91	-26.57	3.47	0.00	828.44
GENERAL INDUSTRIALS	1065.31	[illegible]	-42.33	2.58	0.13	[illegible]
Aerospace & Defence	820.75	-4.04	-34.58	1.92	0.00	832.09
Diversified Industrials	953.88	-4.41	[illegible]	2.08	0.00	965.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

[illegible]

BONDS

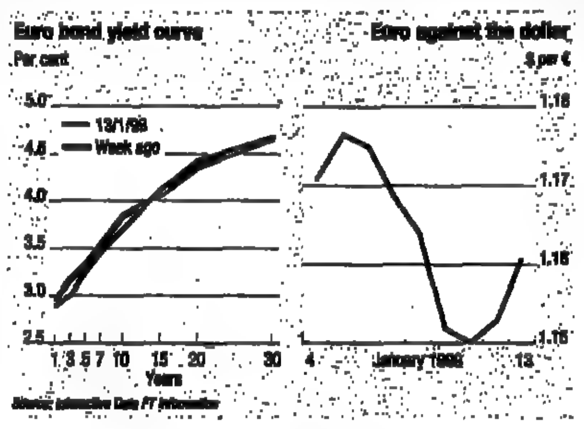
INTEREST RATE SWAPS

Jan 13	Euro-E Bid	Euro-E Ask	Euro-L Bid	Euro-L Ask	£ Stlg Bid	£ Stlg Ask
1 year	3.07	3.10	3.07	3.10	5.42	[illegible]
2 year	[illegible]	3.13	3.09	3.13	5.16	[illegible]
3 year	3.20	3.24	3.20	3.24	5.15	[illegible]
4 year	3.34	3.38	3.34	3.38	5.16	[illegible]
5 year	3.49	3.53	3.49	3.53	5.16	[illegible]

EURO-ZONE BONDS

[illegible]

Euro bond yield curve / Euro against the dollar



OTHER INDICES

[illegible]

FTSE EUROTOP 300

[illegible]

CORPORATE ACCOUNTING

Daimler speeds ahead with conversion

Uta Harnischfeger on one of the first companies to switch its operations to the euro

The man who spearheads DaimlerChrysler's euro conversion team firmly rejects any advance praise. "It's going to take another six weeks until we can declare a full-blown victory," says Wolfgang Hartung, who has spent the last 30 months converting corporate accounts into euros.

But he is certain that the day Daimler can declare itself a D-Mark-free zone is just around the corner. In fact, Daimler would have been ready on January 1, had it not been for a European Union regulation that stipulates a company can only report full-year results in euros once all transactions in that reporting period occurred in euros.

As a result, although euros became Daimler's corporate currency on January 1, the full-fledged conversion is still some weeks away. Once the company gets its D-Mark-denominated 1998 bookkeeping out of the way – 1998 earnings data should be ready internally by the beginning of February – Mr Hartung's team will make its final push.

Then, the 2,500 men and women will convert all transactions and bookkeeping items that have occurred so far in 1999 into euros, retroactive to January 1.

Reporting periods that differ from the calendar year are tying the hands of some companies eager to convert early. For example, the fiscal year of the German electronics group Siemens ends on September 31. Because Siemens must account for this fiscal year in D-Marks, it cannot fully convert into euros before that date. The newly merged industrial group Thyssen-Krupp is in a similar position.

DaimlerChrysler is one of six companies in Germany's blue chip Dax 30 index that have adopted the euro at the earliest date possible. Besides Germany's three largest banks, only the telecommunications and machinery maker Mannesmann and the pharmaceuticals firm Hoechst kept pace with Daimler's ambitions.

The timing of Daimler's decision made it a trendsetter among its German peers: the board approved Mr Hartung's euro proposals as early as October 1997, when German public sentiment against the euro had reached a climax. Growing fears that other EU states might not tighten their budgets enough to give the euro a strong start were paired with proceedings in Germany's Constitutional Court against the single currency project.

Switching promptly to euros means the DaimlerChrysler chairmen Robert Eaton (left) and Jurgen Schrempp can now concentrate fully on linking their operations Reuters

"Given the public mood back then, the board's decision was a bold venture," recalls Mr Hartung. A year earlier, in October 1996, he had given up his job as chief financial officer of Mercedes-Benz of North America and outlined a strategy to convince the board that it was necessary to convert as early as possible.

For Mr Hartung, the smooth transition to the euro so far this year has proved him right. "If you look at the sheer size of this vast undertaking, everyone should be proud," he says.

By 7pm on December 31, after months of tests and simulations, 100,000 Daimler computers had been fed with the euro conversion rates. "All that remained to be done was to hit a button and load down the conversion programme," says Mr Hartung.

Daimler's price list, containing 40,000 individual parts, was ready in euros by the next morning. All in all, Daimler had to convert 800 operative systems and 3,000 databases into euros.

As of today, 95 per cent of Daimler's euro-zone suppliers provide prices in euros, and the remainder are expected to follow suit soon. If it were not for the fact that price lists are still being printed, by now Daimler dealerships would offer all prices in both euros and national currencies.

But Mr Hartung does not want to take credit for that. "That's become common among all our competitors because everyone has to list in both currencies," he says. Almost every car dealer quotes prices in both currencies, eliminating one of the few disadvantages of Daimler's early conversion. Because price tags in euros will display to consumers the huge price differences within the euro-zone, the pressure to streamline prices will affect all car makers.

On the positive side, Daimler has valued the advantages of its early conversion strategy at an annual €50m. The earlier a company converts, the earlier it can reap the benefits from handling fewer currencies. According to the car maker, euros will cut Daimler's currency exposure by roughly 30 per cent, thus partly eliminating the need to hedge against currency fluctuations.

It will also save costs by reducing the number of accounts and by simplifying bookkeeping. This does not only apply to Daimler's operations in Germany. Its operations in the euro-zone, whether it be subsidiaries or factories, are only marginally behind with the transformation, says Mr Hartung.

When and if Britain decides to join the euro, it should be a matter of no time "to use our expertise" and convert dealings from sterling into euros.

Perhaps surprisingly, Daimler's partner, Chrysler, has remained largely unaffected by all the changes. "They live in a dollar world," says Mr Hartung. Since Daimler follows the principle of centralised treasury operations, bills are denominated in the currencies of the respective countries. Transactions with the US are therefore conducted exclusively in dollars.

The merger with Chrysler may not have been an issue when the Daimler board decided on early conversion. But the advantage of switching promptly to euros lies in the fact that the two halves of the new company can now concentrate on linking their operations, Mr Hartung says.

Originally budgeted at DM200m or €100m, the cost of the euro conversion project is likely to remain below that, he thinks. Though Mr Hartung has every reason to be proud of himself, there are some issues where his hands are tied.

Since Germany's government and relevant ministries will convert into euros at the latest possible date and Germans must continue to pay their taxes and social security payments in D-Marks until 2001, Daimler has no choice but to pay its salaries in D-Marks.

Moreover, Mr Hartung still cannot buy his lunch in euros. Since the cafeteria's debiting system involves cash, it cannot be converted yet. "I still carry marks in my pockets," he says with a sigh. "But I converted my bank accounts the first day possible."

INVESTMENT STRATEGY

A big shift to the 'mega-caps'

It pays to think big in the brave new world of euro-zone investing.

Since the single currency was launched two weeks ago stock markets in the 11 participating countries have risen strongly, driven by a small number of the continent's largest companies.

The outperformance of these "mega-caps" echoes a trend which has seen large companies outperform their smaller brethren in most of the world's developed markets. But there is evidence that the upheaval caused by the launch of the euro is playing a significant part in the phenomenon.

If the trend continues, the consequences for European investment and the fund management industry are expected to be far-reaching.

Evidence of big company outperformance comes from a variety of different measures. The Dow Jones Euro Stoxx index of the continent's 50 largest companies outperformed the broader Euro Stoxx index of 300 companies by 1.4 percentage points in the year's first seven trading days.

The real hares at this early stage in the race, however, are the 27 or 28 companies in all euro-zone indices compiled by the three main index providers. Merrill Lynch, the US investment bank, identified 28 companies which form part of the 32 indices designed by FTSE International, Dow Jones and Morgan Stanley Capital International. This "euro-core" outperformed broader European indices by almost 2 percentage points last week. The outperformance weakened a little in the first two days of this week, but still continued at more than 1 percentage point.

Research by ABN Amro, the Dutch-owned investment bank, found that 27 stocks in all indices attracted 42 per cent of all euro-zone stock market turnover in the first week. Such statistics have been seized on by analysts attempting to spot signs of the massive portfolio rebalancing expected as a result of the euro. They have forecast a multi-billion dollar movement of funds around the continent as investors seek to diversify their holdings. Broadly, investors in the euro-zone can now invest across 10 formerly foreign markets without the risk of currency fluctuations.

But why have Europe's largest companies attracted the lion's share of new money? One view is that European investors will behave as "innocents abroad" when they first look outside their domestic markets and are more likely to be comfortable with well-known, liquid and well-researched companies.

Jeffrey Hochman, portfolio strategist at Fidelity, the world's largest fund manager, says: "If you've taken a decision to invest outside, cross-border, you're not going to look for a micro chip telecoms start-up in Finland when you could invest in Nokia as a proxy for the whole Finnish market."

Other more euro-specific factors lie behind the apparent fashion for large companies. One is the battle of the benchmarks. Before one emerges as the main European index for performance measurement, fund managers could decide to hedge their bets by choosing large companies which are included in all indices.

Another factor is the relatively underdeveloped market for small- and medium-sized companies in the euro-zone. Peter Knapton, head of securities at Legal & General, Europe's second-largest index-tracking manager, says: "Europe has always been a big cap market anyway because of the lack of smaller listed companies."

But European large company outperformance is also seen as part of a global trend.

Euro core stocks
Share of E-11 market capitalisation & turnover of 27 stocks (%)

Source: ABN Amro; Datastream

Mr Knapton says: "In whatever market you look at around the world, growth has been driven by a small number of companies."

This outperformance has led to historically high differentials between large and small company share prices. In the UK the FTSE 100 is trading on a forward multiple of 22 times this year's earnings, compared with a multiple of 12 for the small-cap index, according to L&G.

One important factor in the US market may be the behaviour of relatively new retail investors, putting money into household names.

A similar "wall of money" effect could be taking place in Europe, though in the absence of a significant individual savings market it is made up of transfer money - from bonds to equities by large institutional investors and from domestic to European markets.

The dominance of a handful of large companies worries active fund managers, who invest in a broader range of companies than their index-tracking rivals. "The worst case scenario is that 10 or 15 companies get the lion's share of cross-border investment," says Mr Hochman. He uses the Japanese stock market of 1989 as an example of what can happen when a handful of companies become overinflated.

Investors will be watching the performance of large companies carefully in the coming year, when the impact of cross-border investing in Europe will become apparent.

Jane Martinson

Investors take flight to safe haven

BENCHMARK BONDS

By Arkady Ostrovsy in London and John Labate in New York

Government bond markets soared yesterday as investors sought safe havens after Brazil's surprise de facto devaluation and the resignation of Gustavo Franco, head of the country's central bank.

The 30-year US Treasury bond, the benchmark for US interest rates, jumped by more than 200 basis points in early trading as investors sold shares and fled to bonds in a kneejerk reaction. The Brazilian stock market initially fell 10 per cent while the country's benchmark "C" Brady bond dropped by 450 basis points. The decision to widen the trading band for the real against the US dollar from 1.12-1.20 to 1.20-1.32 – effectively devaluing the currency by 8.3 per cent – did not convince everyone.

Analysts said it was enough to scare off foreign investors but not enough to cut Brazilian interest rates, which would boost domestic demand.

"Brazil has taken the wrong decision. It has lost one battle without winning another. I am still uncomfortable with the current exchange rate of R$1.32 to the dollar," said Richard Gray at Bank of America. "The loss of Franco is serious. His policy may or may not have been sensible, but it was the only policy Brazil had."

Phyllis Reed at Barclays Capital said the devaluation sparked off an inevitable correction in equity prices and bond yields. "The US stock market has been overvalued and is definitely coming off the boil," she said. This could lead to slower US growth and a weaker dollar.

In the US, by early afternoon the 30-year bond was off its morning highs, with a gain of 8/32 at 101 11/32, sending the yield down to 5.149 per cent. Among shorter term issues the 10-year note had gained 12/32 to 100¼, yielding 4.717 per cent, and the two-year note climbed 1/32 to 100 1/32, yielding 4.540 per cent.

Hedge funds and banks fled to Treasuries, sparking a slide in equities in early trading, although the Dow Jones Industrial Average was recovering in afternoon trading.

"The outlook is good for Treasuries," said Richard Gilhooly at Paribas Capital Markets. "There is concern that Argentina, Mexico and Peru will be forced to devalue their currencies, and that Brazil could be forced to devalue again or to float its currency."

The flight to safety and the strong performance in the US also pushed up the European markets, which saw a sharp rise in trading activity. The German bund future closed 0.27 higher at 117.03. The UK gilt future rose by 0.78 to 119.51.

The Brazilian crisis had knock-on effects on other emerging markets, Argentina being one of the worst hit. But analysts said the Brazilian devaluation is unlikely to be as contagious as the Russian crisis has been. Argentine and Mexican Brady bonds were down sharply at one stage but recovered as investors took stock of the developments.

Danyelle Guyatt at Deutsche Bank said the main focus after Latin America would be on China. Fears of a Chinese currency devaluation during the height of the Asian crisis last year were unfounded, but attention is likely to return to the issue.

Liffe to allow conversion to Euribor

By Vincent Boland

The London International Financial Futures and Options Exchange will allow investors in its three-month euromark futures contracts to convert to three-month Euribor contracts next week – a further sign that the Brussels-based benchmark has become a significant force in money market transactions.

The voluntary conversion, on January 19, allows investors to choose whether to convert to new contracts based on Euribor – a reference rate set by the European Banking Federation and heavily promoted by euro-zone central banks under political pressure – or Euro Libor – set by the British Bankers' Association.

The move comes before a mandatory conversion of three-month Euromark and Eurolira futures and options into three-month Euro Libor positions on January 23/24. It marks a further attempt by Liffe to offer both Euribor and Euro Libor-based products to customers following the introduction of the euro.

Brian Williamson, Liffe chairman, said the conversion was being offered at the request of investors and aimed at using the exchange's liquidity to build a contract based on Euribor.

"The Euribor contract is going to be a substantial one but our view is that both will be successful," he said. "It makes sense for London to be the base for three-month contracts, whether Euribor or Euro Libor."

Last week Liffe launched five and 10-year swaps contracts in euros based on Euribor. Previously it had only offered a swaps contract based on Libor.

RATINGS COMMERCIAL PAPER DOWNGRADED

Fitch IBCA warns on Russian debt

By John Thornhill in Moscow

Fitch IBCA, the international credit rating agency, yesterday warned that the Russian government's deteriorating finances threatened its ability to service its post-1992 eurobonds. It also downgraded Russia's restructured Soviet-era commercial debt, recognising it to be in default.

The Russian government has repeatedly stated it would not default on any external obligations, emphasising the debt it had issued as an independent sovereign entity was "untouchable". It had also denied that the London Club debt was in default, saying most investors had accepted its restructuring proposals.

However, Fitch IBCA said Russia's failure to make a $362m cash payment in December on its Prins (restructured London Club debt) amounted to a default. Creditors must decide by January 19 whether to demand a full and immediate repayment of the loan or enter into fresh restructuring talks.

David Riley, a Fitch IBCA director, said: "There is no doubt about it. This is a formal default. In practice the Russians know that but it is just convenient for them to muddy the waters a bit for domestic reasons."

He said it was likely that part of the $30bn of London Club debt, last restructured in 1997, would have to be forgiven. "We are not only talking about a restructuring of the payment profile but a debt write-off," he said.

Fitch IBCA also questioned whether Russia would be able to service its eurobonds in the absence of additional financial support from abroad. It has assigned a CCC rating to Russia's eurobonds, the lowest the agency has ever made.

The Russian government said that 72 per cent of the creditors who held Prins had accepted amended repayment terms last month. But Bank of America, the agent for Prins, argued that any such restructuring proposals required the consent of 95 per cent of the bondholders. On December 30 the bank issued a notice stating that Prins were in default.

However, some investors have recently begun buying Prins, which trade at about 6 cents on the dollar, arguing they could be worth more following a restructuring.

In a research note this week – before the Brazilian financial crisis – ING Barings highlighted the potential recovery value of Prins. "On the basis of our central assumptions regarding the timing and terms of restructuring, we believe that current prices offer substantial value for risk-tolerant investors prepared to take a long-term view on Russia," the report concluded.

But other economists suggest Russia's financial position is so dire it may even default on the $4.8bn of principal and interest due to the IMF this year – unless further funds are forthcoming. "Without IMF money, a desperate situation becomes hopeless," one said.

Brazil's shadow falls on issuers

NEW ISSUES

By Khozem Merchant

Brazil's financial crisis cast its shadow across the new issues market yesterday, forcing some issuers to revise the terms of their offerings to attract jittery investors, while others put off deals for the day. Most of the volatility was in the US dollar sector, with euro-denominated issues a little more robust.

The $3bn bond launched earlier this week by Freddie Mac, the US housing lender, was expected to be priced to yield 48 basis points over five-year US Treasuries. In the event, the bond was priced wider at 56 basis points yesterday.

The pricing of a five-year $500m bond by Cades, the French social security debt repayment fund, was postponed because of the volatility. Bankers said the bond was expected to be priced to yield 50 basis points over US Treasuries. But the destabilisation saw five-year swap spreads widen by about 20 basis points.

In contrast to the subdued dollar market, there was a flurry of issuance in euro-denominated paper, led by a jumbo €1.1bn bond from Austria. The 15-year bond was underwritten by a syndicated group led by Nomura and ABN Amro. The issue is likely to be increased to about €6bn either through another syndicated placement or through an auction similar to the one held on Tuesday, when €2.2bn of seven-year paper was sold.

Portugal is expected to launch a €1.5bn soon, but is still undecided on the auction or syndicated approach.

Austria is looking beyond its traditional investor base and Nomura's participation as joint lead manager with ABN AMRO was intended to tap into the Japanese bank's good distribution in Japan. Some 35 per cent of Nomura's allotment was bought by Japanese investors, who have been keen buyers of euro-denominated paper in recent weeks as they diversify their portfolios.

The bond was priced to yield 48 basis points over the new 2009 German bund. The Austrian bond is a rare sovereign issue in the 15-year category, which is attracting more investors keen to capture higher yield and lengthen duration.

This migration to the long end of the curve is being encouraged by expectations of lower interest rates, which benefits longer maturities.

Credito Bergamasco, a small regional bank based in northern Italy, issued a two-tranche bond in US dollars and euros, the inaugural issue from the bank's €700m medium-term programme.

The €125m and $125m tranches, both of five-year maturity, were priced to yield Euribor plus 22 basis points and Libor plus 23 basis points respectively and traded unchanged.

Credito Bergamasco, the Lombardy-based bank that has grown by snapping up its regional rivals, is typical of the crop of new credits coming to the market as a consequence of the euro's creation of a pan-European market. It had previously met most of its funding needs from the domestic market.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Cades	500	(a)	(a)R	Jan 2004	0.25R	(a)(Nov03)	Merrill Lynch Intl
Credito Bergamasco‡	125	(b)	99.812R	Feb 2004	0.175R	-	Deutsche Bank
EUROS(e)							
Republic of Austria(c)	1.1bn	4.125	99.559R	Jan 2014	0.25R	+10(i)	ABN Amro/Nomura Intl
UBS AG(Jersey)(d)	300	3.50	99.16R	Jan 2005	0.30R	+15(7%Oct05)	Warburg Dillon Read
Deutsche Apo-& Aertze Bk‡	250	(f,j)	99.7625	Jan 2003	0.15	-	Deutsche/Merrill Lynch
Credito Bergamasco‡	125	(g)	99.849R	Feb 2004	0.175R	-	Deutsche Bank
BGB Finance Ireland(h)‡	60	(h1)	99.75R	Jan 2019	0.50R	-	Morgan Stanley DW
GECC(l)	60	4.00	104.80	Dec 2004	1.625	-	Warburg Dillon Read
STERLING							
Norsk Hydro ASA	225	6.50(s)	98.60R	Jun 2021	0.625R	+210(Jun21)	Goldman Sachs Intl
European Inv'ment Bank(k)	100	5.50(l)	104.75	Dec 2009	0.325	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Priced today. b) 3-mth Libor +⅛%. c) Plus 14 days accrued. d) Spread re French govt bonds. e) Spread relates to German govt bonds unless stated. f) 3-mth Euribor +6¼bp. g) 3-mth Euribor +⅛%. h) Callable annually from 28/1/09 at par. h1) 13% in yr 1, 6% in yr 2, 5% in yr 3, 4% in yrs 4-10, then 8% - 12-mth Euribor. i) Over interpolated yield. j) Fungible with €250m. Plus 42 days accrued. k) Fungible with £250m. Plus 67 days accrued. l) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 13	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.3782	4.81	-0.13	+0.11	+0.39	-0.28
	08/08	8.750	126.0724	5.25	-0.16	+0.13	+0.42	-0.41
Austria	07/00	5.875	104.0800	3.03	-0.05	-0.16	-0.24	-1.13
	01/08	5.000	109.4500	3.87	-0.05	-0.07	-0.14	-1.25
Belgium	01/00	4.000	100.9800	2.88	-0.04	-0.08	-0.14	-1.05
	03/08	5.750	112.9500	3.81	-0.05	-0.07	-0.14	-1.22
Canada	12/00	5.000	100.5200	4.70	-0.07	-0.01	+0.08	-0.04
	06/08	6.000	107.8000	4.97	-0.04	+0.03	+0.15	-0.25
Denmark	11/00	8.000	108.3500	3.58	+0.07	-0.09	-0.34	-0.81
	11/07	7.000	121.1200	4.10	-0.02	+0.04	-0.13	-1.04
Finland	08/00	4.000	101.3800	3.00	-0.08	-0.11	+0.28	-0.75
	04/08	6.000	116.2230	3.85	-0.08	-0.03	-0.16	-1.25
France	07/00	4.000	101.4200	2.99	-0.03	-0.09	-0.16	-0.85
	10/05	7.750	125.4400	3.46	-0.08	-0.08	-0.10	-1.28
	10/08	8.500	135.0400	3.77	-0.07	-0.02	-0.10	-1.29
	04/29	5.500	113.2300	4.67	-0.04	+0.03	-0.03	-0.84
Germany	08/00	4.000	101.4000	2.96	-0.04	-0.05	-0.21	-0.92
	10/05	6.500	117.3800	3.55	-0.07	-0.08	-0.13	-1.20
	07/08	4.750	107.8900	3.74	-0.07	-0.08	-0.06	-1.32
	01/28	5.625	114.7200	4.69	-0.03	+0.04	-0.01	-0.84
Greece	09/00	8.900	99.2482	10.45	+0.34	+0.39	+0.33	-6.19
	03/08	8.600	113.5170	8.61	+0.05	+0.29	-0.59	-4.27
Ireland	10/01	6.500	108.7200	3.15	-0.02	-0.04	-0.15	-1.52
	08/08	6.000	116.1000	3.88	-0.05	+0.03	-0.06	-1.27
Italy	04/01	4.800	102.9900	3.09	-0.05	-0.05	-0.16	-1.59
	07/03	4.300	104.7700	3.35	-0.04	-0.02	-0.07	-1.57
	05/08	5.000	108.2100	3.92	-0.04	+0.03	-0.04	-1.42
	11/27	6.500	125.6200	4.84	-	+0.11	-0.04	-0.98
Japan	12/00	6.900	111.9320	0.62	-0.03	-0.08	+0.08	+0.04
	12/03	4.100	113.8050	1.24	-0.04	-0.11	+0.27	+0.08
	06/08	1.800	100.8070	1.78	-0.04	-0.11	+0.45	+0.07
	03/18	2.700	102.6170	2.53	-0.01	-0.08	+0.41	+0.04
Netherlands	05/00	9.000	107.5900	3.02	+0.02	-0.07	-0.18	-1.01
	07/08	5.250	111.0100	3.84	-0.07	-0.05	-0.09	-1.18
New Zealand	02/01	8.000	105.3558	5.20	-0.02	+0.02	+0.28	-2.37
	07/09	7.000	110.6583	5.84	-0.06	+0.08	+0.36	-1.04
Norway	05/01	7.000	103.3000	5.46	-	-0.16	-2.10	+1.18
	01/07	6.750	111.0500	5.04	-0.05	-0.11	-0.21	-0.26
Portugal	03/00	5.375	102.5000	3.16	+0.01	-0.06	+0.05	-1.31
	06/08	5.375	110.9500	3.95	-0.02	+0.04	-0.16	-1.41
Spain	04/00	6.750	104.4500	3.00	-0.03	-0.05	-0.12	-1.48
	01/08	6.000	115.2700	3.96	-0.01	+0.06	-0.11	-1.34
Sweden	05/00	10.250	108.5341	3.36	-0.08	-0.09	-0.06	-1.48
	05/08	6.500	118.8570	4.02	-0.07	-	-0.15	-1.56
Switzerland	05/00	4.500	104.3400	1.32	-0.08	-0.17	-0.07	-0.22
	01/08	4.250	115.7000	2.29	-0.08	-0.03	+0.08	-0.82
UK	11/01	7.000	106.3000	4.58	-0.08	-0.14	-0.13	-1.94
	12/03	6.500	109.8300	4.25	-0.08	-0.11	-0.15	-1.84
	10/08	9.000	137.3000	4.28	-0.08	-0.04	-0.19	-1.70
	12/28	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. * New York mid-day. Yields: Local market standard. Source: Interactive Data/FT Information.

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	112.30	112.82	+0.87	113.12	112.23	43,614	91,029

[illegible]

Germany [illegible]

Italy [illegible]

Spain [illegible]

UK [illegible]

US [illegible]

Japan [illegible]

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	112.70	112.15	+1.30	112.70	112.70	1	245

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Government Securities — UK Indices

[illegible]

UK GILTS PRICES

[illegible]

مكتب الأرشيف

Brazilian real bows to the inevitable

MARKETS REPORT

By Alan Beattie

The prophets of Latin American doom were vindicated yesterday as the Brazilian real was in effect devalued by 8 per cent, and the governor of its central bank resigned.

The effects were felt in most emerging market currencies, though most market analysts stopped short of predicting a Russian-style crisis in global financial markets.

The real dropped immediately to the bottom of its new band of R$1.20-R$1.32. Few market analysts expected that the new band would last for long, with some predicting that Brazil would be forced to let the currency float completely or to adopt a harsher currency regime such as a currency board, linking the real irrevocably to the dollar.

The risk of contagion throughout Latin America also pulled down the dollar, even though US Treasuries played their traditional role of a safe haven for capital at a time of crisis. The dollar fell to its lowest against the euro since the beginning of the year, nearly touching $1.18 before closing at $1.170.

The spark for the collapse in the regime may have been the decision of the Brazilian state Minas Gerais to declare a 90-day moratorium on its debt repayments to the central government.

But increasing capital flight from the Brazilian economy, which saw an outflow of over $2bn on Monday and Tuesday this week, has threatened the crawling peg exchange rate regime for some time.

Long-term real peg bears exhibited a degree of morbid satisfaction yesterday that their predictions had come true. "Looking at the daily capital outflows, it is clear that private investors did not share the official enthusiasm of the Brazilian government and the International Monetary Fund (IMF) that the peg would hold," said Michael Burke, an independent economic consultant in London.

Mr Burke said that a complete breakdown of the real peg system in the near term could not be ruled out. "The best solution would be to let it float, as with the South Korean won," he said, "but the involvement of the IMF means this is unlikely."

He added that support for the real from private capital flows was not likely to be forthcoming. "Private investors are not going to put money into Brazil unless they are sure that the real is going to hold," he said.

■ The impact of the Brazilian devaluation took predictable forms throughout the world's currencies.

The fall-out from the crisis was felt most immediately in the rest of Latin America. The Mexican peso dropped by around 10 per cent to around 11 pesos to the dollar. But later it recovered, and by the end of London trading had recouped half of its losses at 10.5 pesos.

Other emerging market currencies also fell. The zloty was fixed at 4.5 per cent above the middle of its trading band yesterday, compared with Tuesday's fix of 7.7 per cent and a five-month high of nearly nine per cent reached last week.

The South African rand took a double blow, being both an emerging market and having a strong commodity link. The rand closed in London yesterday at R6.12, 1.4 per cent lower than on Tuesday.

The Canadian dollar, which rose recently as investors expected a bounce in commodity prices, also dropped by 1.4 per cent, to C$1.5280 against the dollar.

■ The technical change that so shook currency markets seemed relatively minor.

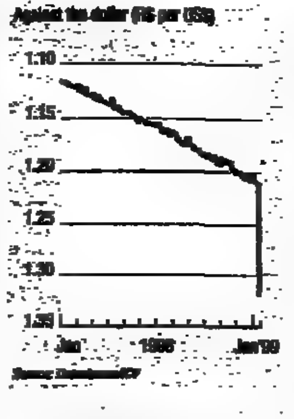
The central bank announced two changes. The first was the lowering of the wide band – within which the real is intended to trade throughout the next 12 months – to R$1.20-R$1.32. This implied a slightly faster devaluation than in 1998. The bottom of the new band is over 8 per cent lower, compared with a 7 per cent drop in 1998. But this was not radically different.

The sting in the tail came with the second change: abandonment of the mini-band which formerly kept the real from devaluing too much from week to week.

The currency markets saw the end of the mini-band as a relaxation of the regime and an invitation for the real to fall to the bottom of the maxi-band, which it did.

Brazilian real

Against the dollar (R$ per US$)



Source: Datastream/ICV

■ POUND IN NEW YORK

Jan 13	— Latest —	— Prev. close —
£ spot	1.6495	1.6310
1 mth	1.6480	1.6294
3 mth	1.6464	1.6280
1 yr	1.6459	1.6379

■ OTHER CURRENCIES

Jan 13	£	$
Czech Kr	[illegible] - [illegible]	[illegible] - [illegible]
Hungary	359.400 - 359.872	216.150 - 218.300
Iran	[illegible] - [illegible]	3000.00 - 3000.00
Kuwait	0.4984 - 0.4991	0.3017 - 0.3019
Peru	5.3578 - 5.3726	3.2430 - 3.2500
Poland	5.9063 - 5.9264	3.5750 - 3.5850
Russia	37.2540 - [illegible]	[illegible] - [illegible]
U.A.E.	6.0677 - 6.0722	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jan 13		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.4303	−0.0076	219 - 387	19.4540	19.3963	19.3611	3.0	19.3086	2.5	19.0042	2.2	103.3
Belgium*	(BFr)	56.9622	−0.0222	377 - 867	57.0310	56.8870	56.816	3.0	56.5996	2.5	55.7129	2.2	103.4
Denmark	(DKr)	10.5081	[illegible]	[illegible]	10.5288	10.4807	10.4866	2.3	10.4587	1.9	10.2506	1.5	103.9
Finland*	(FM)	8.3957	[illegible]	[illegible]	8.4080	8.3550	8.3744	3.0	8.3422	2.5	8.2115	2.2	82.5
France*	(FFr)	9.2825	−0.0036	585 - 865	9.2737	9.2177	9.239	3.0	9.2035	2.5	9.0588	2.2	107.8
Germany*	(DM)	2.7618	−0.0011	608 - 628	2.7681	2.7605	2.7548	3.0	2.7442	2.6	2.7012	2.2	104.8
Greece	(Dr)	465.508	+1.8900	953 - 059	461.587	458.902	461.741	−5.8	465.672	[illegible]	479.554	−4.4	82.7
Ireland*	(I£)	1.1121	−0.0004	116 - 126	1.1135	1.1087	[illegible]	3.1	1.105	2.6	1.0877	2.2	88.6
Italy*	(L)	2734.12	−1.0700	294 - 530	2737.45	2720.91	2727.19	3.0	2718.71	2.5	2674.15	2.2	78.2
Luxembourg*	(LFr)	56.9622	−0.0222	377 - 867	57.0310	56.8870	56.816	3.0	56.5996	2.5	55.7129	2.2	103.4
Netherlands*	(Fl)	3.1118	−0.0012	104 - 131	3.1155	3.0967	[illegible]	3.0	3.092	2.5	3.0436	2.2	103.0
Norway	(NKr)	12.3326	+0.1943	247 - 404	12.3903	[illegible]	12.3532	−2.0	12.383	−1.6	12.4724	−1.1	92.3
Portugal*	(Es)	283.082	−0.7100	970 - 214	283.434	281.718	282.375	3.0	281.29	2.5	276.664	2.2	92.8
Spain*	(Pta)	234.940	[illegible]	[illegible]	235.230	233.820	234.351	3.0	[illegible]	2.5	[illegible]	2.2	77.4
Sweden	(SKr)	12.8882	+0.1050	[illegible]	12.9251	12.6985	12.8588	2.7	12.8122	2.3	12.6591	1.6	81.8
Switzerland	(SFr)	2.2404	−0.0275	389 - 419	2.2573	2.2238	2.2306	5.3	2.2153	4.5	2.1596	3.7	100.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	99.0
Euro	(€)	1.4121	−0.0006	114 - 127	1.4127	1.4060	1.4065	3.1	1.4031	2.5	1.3811	[illegible]	-
SDR†	-	1.162900	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6523	+0.0221	518 - 528	[illegible]	[illegible]	-	-	-	-	-	-	-
Brazil	(R$)	2.1806	+0.2061	775 - 837	2.1886	1.9770	-	-	-	-	-	-	-
Canada	(C$)	2.5252	+0.0672	236 - 268	2.5620	2.4738	[illegible]	1.1	2.5282	0.8	2.5145	0.4	70.2
Mexico	(New Peso)	17.3523	+0.8810	644 - 402	18.3342	16.6825	17.7859	−30.0	18.4811	−25.6	21.5057	−23.9	-
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.6511	1.1	[illegible]	0.8	[illegible]	0.3	104.0
Pacific/Middle East/Africa													
Australia	(A$)	2.6169	+0.0766	141 - 177	[illegible]	[illegible]	2.613	1.3	2.6094	1.0	2.5995	[illegible]	78.4
Hong Kong	(HK$)	12.8023	+0.1681	980 - 066	12.8517	12.6473	12.8126	−1.0	12.858	−1.7	13.1248	−2.5	-
India	(Rs)	[illegible]	[illegible]	[illegible]	70.4160	69.4320	70.4566	−4.0	71.0582	−4.0	[illegible]	−4.6	-
Indonesia	(Rupiah)	[illegible]	[illegible]	[illegible]	14381.97	13056.80	14975.1	−84.4	[illegible]	−66.1	[illegible]	−40.3	-
Israel	(Shk)	[illegible]	[illegible]	[illegible]	6.7840	6.6919	-	-	-	-	-	-	-
Japan	(Y)	187.826	+5.5360	712 - 941	[illegible]	[illegible]	186.886	5.9	185.286	5.4	178.726	4.8	133.4
Malaysia	(M$‡)	6.2799	+0.0840	709 - 769	6.3045	6.2021	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.0621	+0.0747	493 - 568	3.0784	3.0006	3.0486	1.8	3.0444	1.1	3.0476	0.2	81.6
Philippines	(Peso)	64.1210	[illegible]	[illegible]	64.3882	63.9537	[illegible]	−8.5	65.312	−7.4	69.0107	−7.5	-
Saudi Arabia	(SR)	6.1981	+0.0837	954 - 008	6.2220	6.1220	6.2017	−0.7	6.2175	−1.0	6.2903	−1.5	-
Singapore	(S$)	2.7896	+0.0519	871 - 921	2.8007	2.7383	2.7826	2.9	2.7708	2.7	2.729	2.2	-
South Africa	(R)	10.1139	[illegible]	[illegible]	10.3337	9.9013	10.2233	−13.0	10.3987	−11.3	11.2837	−11.4	-
South Korea	(Won)	1930.33	+25.9400	626 - 239	1944.86	1915.17	-	-	-	-	-	-	-
Taiwan	(T$)	53.2113	+0.7198	481 - 745	53.4478	52.5487	53.2439	−0.7	[illegible]	−0.7	53.7598	−1.0	-
Thailand	(Bt)	61.2269	+1.6379	277 - 300	61.4570	59.5780	61.5845	−7.0	61.9768	−4.9	63.3287	−3.8	-

† Rates for Jan 12. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 13		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	11.7574	−0.1640	[illegible]	11.9085	[illegible]	11.7387	1.9	11.7036	1.8	11.5221	2.0	102.8
Belgium*	(BFr)	34.4683	−0.4807	638 - 727	34.9050	34.2390	34.4133	1.9	34.3101	1.8	33.7782	2.0	103.2
Denmark	(DKr)	6.3591	−0.0888	571 - 611	6.4443	6.3153	6.3528	1.2	[illegible]	1.2	6.2711	1.4	105.6
Finland*	(FM)	5.0803	−0.0703	755 - 810	5.1447	5.0465	5.0722	1.9	5.057	1.8	4.9796	2.0	81.3
France*	(FFr)	5.5048	−0.0782	[illegible]	5.6758	5.5575	5.5959	1.9	5.5791	1.8	5.4925	2.0	106.1
Germany*	(DM)	1.6712	−0.0233	[illegible] - 714	1.6923	1.6600	1.6685	1.9	1.6635	1.8	1.6378	2.0	104.0
Greece	(Dr)	278.050	−2.6100	[illegible]	280.020	276.280	279.665	−7.0	282.16	−5.9	290.775	−4.6	82.3
Ireland*	(I£)	1.4980	+0.0204	[illegible]	1.4969	1.4674	1.4865	−2.0	1.4827	−1.8	1.5155	−2.0	-
Italy*	(L)	1654.44	−23.0700	422 - 465	1675.41	1643.41	1651.8	1.9	1646.85	1.8	1621.32	2.0	75.7
Luxembourg*	(LFr)	34.4683	−0.4807	[illegible]	34.9050	34.2390	34.4133	1.9	34.3101	1.8	33.7782	2.0	103.2
Netherlands*	(Fl)	1.8830	−0.0262	827 - 832	1.9058	1.8704	1.88	1.9	1.8744	1.8	1.8453	2.0	102.5
Norway	(NKr)	7.4625	+0.0130	[illegible]	7.5125	7.3974	7.482	−3.1	7.5075	−2.4	7.5547	−1.2	[illegible]
Portugal*	(Es)	171.301	−2.3900	[illegible]	173.470	170.180	171.029	1.9	170.515	1.8	167.971	2.0	92.9
Spain*	(Pta)	142.158	−1.9800	130 - 185	143.976	141.220	141.961	1.9	141.515	1.8	139.322	2.0	78.9
Sweden	(SKr)	7.7976	−0.0404	[illegible]	7.8344	7.7465	7.7872	1.6	7.7692	1.5	7.6748	1.6	82.2
Switzerland	(SFr)	1.3557	−0.0352	552 - 562	[illegible]	1.3405	1.351	4.2	1.343	3.7	1.3078	3.5	107.4
UK	(£)	1.6529	+0.0221	521 - 531	1.6592	1.6321	1.6511	1.1	1.6490	0.7	1.6466	0.2	98.2
Euro	(€)	1.1764	+0.0161	702 - 705	1.1786	1.1551	1.1723	−1.8	1.1787	−1.8	1.1307	[illegible]	-
SDR†	-	0.71471	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	995 - 999	0.9998	0.9996	-	-	-	-	-	-	-
Brazil	(R$)	1.3195	+0.1065	180 - 210	1.3210	1.2120	-	-	-	-	-	-	-
Canada	(C$)	1.5280	+0.0265	275 - 285	1.5470	1.5150	-	-	1.5277	0.1	1.5251	0.2	78.8
Mexico	(New Peso)	10.5900	+0.2800	[illegible]	10.5800	10.5200	10.7725	−31.1	11.1775	−25.8	12.85	−22.4	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	108.1
Pacific/Middle East/Africa													
Australia	(A$)	1.5839	+0.0236	820 - 835	1.5901	1.5806	1.5821	0.6	1.5795	0.9	1.5696	0.9	78.8
Hong Kong	(HK$)	7.7468	−0.0019	465 - 470	7.7485	7.7458	7.7603	−2.1	7.7813	−0.7	7.8816	−1.9	-
India	(Rs)	42.4925	−0.0150	875 - 975	42.5050	42.4675	42.675	−5.2	43.0475	−5.2	45.675	−7.5	-
Indonesia	(Rupiah)	8650.00	+650.0000	300 - 600	8700.00	8000.00	9070	−58.0	9305	−32.8	10800	−25.6	-
Israel	(Shk)	4.0820	+0.0388	802 - 887	4.1091	4.0503	-	-	-	-	-	-	-
Japan	(Y)	113.855	+1.0650	820 - 890	113.900	111.120	113.2	4.0	112.35	4.8	108.425	4.6	137.5
Malaysia	(M$‡)	3.8000	-	300 - 300	3.8001	3.7980	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8474	+0.0267	457 - 491	1.8597	1.8342	[illegible]	−3.0	1.8560	−1.8	1.8747	−1.5	-
Philippines	(Peso)	38.8500	+0.9000	500 - 500	38.8500	38.6500	39.11	−8.6	39.585	−7.5	41.8255	−7.5	-
Saudi Arabia	(SR)	3.7505	+0.0065	500 - 510	3.7510	3.7500	3.7562	−1.8	3.7679	−1.9	3.814	−1.7	-
Singapore	(S$)	1.6860	+0.0080	870 - 890	1.6880	1.6746	1.6854	1.8	1.6795	2.7	1.6505	2.2	-
South Africa	(R)	6.1200	[illegible]	150 - 250	6.2300	6.0700	6.192	−14.1	6.2925	−11.3	6.7883	−10.0	-
South Korea	(Won)	1173.00	-	200 - 500	1175.00	1172.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.1965	+0.0050	700 - 270	32.2270	32.1700	32.2465	−1.9	[illegible]	−0.9	32.4965	−0.9	-
Thailand	(Bt)	37.0500	[illegible]	[illegible]	37.1000	36.5000	37.3	−8.1	37.18	−1.4	38.05	−2.7	-

† SDR rate per $ for Jan 12. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is [illegible] MYR/USD, a discount of [illegible] on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Jan 12: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member.

The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

WORLD INTEREST RATES

MONEY RATES

Jan 13	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3⅛	3⅛	3⅛	3⅛	3⅛	-	3.00	3.00
Switzerland	[illegible]	[illegible]	1¼	1¼	1⅝	-	1.00	-
US	4⅝	4⅝	4⅞	4⅝	5	-	4.50	-
Japan	[illegible]	¼	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5	5⅛	5⅛	5⅛	-	-	-
US Dollar CDs	-	4.76	4.79	4.80	4.83	-	-	-
Euro Linked Ds	-	3⅛	3⅛	3⅛	3⅛	-	-	-
SDR Linked Ds	-	3⅛	3⅛	3⅛	3⅛	-	-	-
BBA Euro Libor	-	3⅛	3⅛	3⅛	3⅛	-	-	-
Euro Euribor	-	3.206	3.183	3.141	3.107	-	-	-
EONIA	3.18	-	-	-	-	-	-	-
EURONIA	3.1767	-	-	-	-	-	-	-

London meeting deposit rate [illegible] is the [illegible] London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Jan 13	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3¼ - 3⅛	3¼ - 3⅛	3¼ - 3⅛	3¼ - 3⅛	3⅛ - 3	3⅛ - 3
Danish Krone	4⅛ - 3⅞	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	6 - 5⅞	6⅛ - 5⅞	6⅛ - 6⅛	5⅞ - 5⅞	5⅝ - 5½	5⅝ - 5⅝
Swiss Franc	1⅛ - ⅞	[illegible]	1 - ⅞	1⅛ - 1⅛	1⅛ - 1⅛	1⅝ - 1½
Canadian Dollar	5⅛ - 4⅞	5 - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞
US Dollar	5⅛ - 4⅞	4⅞ - 4⅝	4⅞ - 4⅞	4⅞ - 4⅝	5 - 4⅞	5⅛ - 4⅞
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	3⅛ - 2⅞	3⅛ - 3	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF)Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.91	96.95	+0.04	96.97	96.91	2,855	34,884
Jun	97.07	97.11	+0.04	97.13	97.07	4,048	13,631

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.920	96.945	+0.035	96.965	96.910	80484	436836
Jun	97.085	97.105	+0.040	97.135	97.070	113319	416228
Sep	97.135	[illegible]	+0.050	97.190	97.125	61252	333851
Dec	96.825	96.870	+0.070	96.900	96.820	23015	209408

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.920	96.945	+0.035	96.960	96.920	2192	241486
Jun	97.080	97.105	+0.040	97.120	97.080	726	67972
Sep	97.130	97.180	+0.050	97.140	97.130	280	42648
Dec		96.870	+0.070			0	40748

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.600	98.670	+0.110	98.730	[illegible]	50573	67761
Jun	98.490	98.560	+0.100	98.620	[illegible]	21636	40848
Sep	98.400	98.450	+0.090	98.500	98.400	8012	23521
Dec	98.040	98.080	+0.090	[illegible]	98.020	1087	9816

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		[illegible]	+0.02			0	na
Jun		99.45	+0.03			0	na
Sep		[illegible]	+0.04			0	na

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		96.945	+0.035			0	5044
Jun		97.105	+0.040			0	2463
Sep	97.165	97.180	+0.050	97.165	97.160	4	1832
Dec		96.870	+0.070			0	889

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
96875	0.110			0.040		
97000	0.055	0.190	0.280	0.110	0.085	0.120
97125	0.025			0.205		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2032 Puts 8478

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 13		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.46	16.26	4.848	[illegible]	4800	5.463	21.56	497.0	412.5	22.62	3.933	[illegible]	[illegible]	2.901	329.7	2.479
Denmark	(DKr)	54.20	10	8.814	2.628	1.058	2602	2.961	11.74	269.4	223.6	12.26	2.132	0.952	2.403	1.573	178.7	1.344
France*	(FFr)	61.50	11.35	10	2.982	1.201	2952	3.360	13.31	305.6	253.7	13.91	2.419	1.080	2.726	1.784	202.8	1.525
Germany*	(DM)	20.63	3.805	3.354	1	0.403	990.0	1.127	4.465	102.5	85.07	4.665	0.811	0.362	[illegible]	0.598	68.01	0.511
Ireland*	(I£)	51.22	9.450	8.329	[illegible]	1	2459	2.798	11.09	254.6	211.3	11.59	2.015	0.899	2.271	1.488	168.9	1.270
Italy*	(L)	2.063	0.384	0.339	0.101	0.041	100	0.114	0.451	[illegible]	8.598	0.471	0.082	0.037	0.092	0.060	[illegible]	0.052
Netherlands*	(Fl)	18.31	3.377	2.977	0.888	0.357	878.6	1	3.960	90.97	75.50	4.141	0.720	0.321	0.812	0.531	60.36	0.454
Norway	(NKr)	46.19	8.521	7.511	[illegible]	0.902	2217	2.523	10	229.5	190.5	10.45	1.817	0.811	2.048	1.340	[illegible]	1.146
Portugal*	(Es)	20.12	3.712	3.272	0.976	0.393	965.6	[illegible]	4.356	100	82.99	4.552	0.791	0.353	0.892	0.584	66.35	[illegible]
Spain*	(Pta)	24.24	4.473	3.942	1.176	0.473	1164	1.324	5.249	120.5	100	5.485	0.954	0.426	1.075	0.703	79.94	0.601
Sweden	(SKr)	44.20	8.155	[illegible]	[illegible]	0.863	2122	2.415	9.570	219.7	182.3	10	1.739	0.776	1.960	1.282	145.8	1.096
Switzerland	(SFr)	25.42	4.691	4.134	1.233	0.496	1220	1.389	5.505	126.4	104.9	5.752	1	0.446	[illegible]	0.738	[illegible]	0.630
UK	(£)	56.96	10.51	9.262	2.762	1.112	2734	[illegible]	12.33	283.1	234.9	12.89	2.240	1	[illegible]	1.653	187.8	1.412
Canada	(C$)	22.56	4.162	3.668	1.094	0.440	1083	1.232	4.884	112.1	93.04	5.108	0.887	0.396	1	0.654	74.38	0.559
USA	($)	34.47	6.359	[illegible]	1.671	0.673	1654	[illegible]	7.463	171.3	142.2	7.798	1.356	0.605	1.528	1	113.7	0.854
Japan	(Y)	30.33	5.595	4.931	1.470	0.592	1455	1.657	6.565	150.7	125.1	6.861	1.193	0.532	[illegible]	0.880	100	0.752
Euro	(€)	40.34	7.442	6.560	1.956	0.788	1936	2.204	8.734	200.5	166.4	9.128	1.587	0.708	1.789	1.170	133.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5973	0.6009	+0.0084	0.6047	0.6005	19,100	57,705
Jun	0.6056	0.6058	+0.0104	0.6059	[illegible]	4	1,384
Sep	0.6065	-	-	-	-	-	139

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	[illegible]	0.7429	+0.0181	0.7525	0.7420	11,771	34,411
Jun	0.7550	[illegible]	+0.0264	0.7575	0.7550	14	405
Sep	0.7495	-	-	-	-	-	321

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8436	[illegible]	−0.0087	[illegible]	[illegible]	30,917	74,714
Jun	[illegible]	[illegible]	−0.0074	[illegible]	[illegible]	145	4,223
Sep	[illegible]	-	-	-	-	2	1,382

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6476	1.6524	+0.0240	1.6578	[illegible]	[illegible]	58,205
Jun	[illegible]	1.6510	+0.0240	1.6520	1.6510	9	1,275
Sep	1.6540	-	-	-	-	-	230

UK INTEREST RATES

LONDON MONEY RATES

Jan 13	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅞ - 5	6⅛ - 5¾	6⅛ - 5⅞	5⅞ - 5⅞	5⅝ - 5⅝	5⅝ - 5½
Sterling CDs	-	-	5¾ - 6	5⅞ - 5¾	5⅝ - 5⅝	5⅝ - 5½
Treasury Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅞	5¾ - 5⅞	-	-
Local authority deps.	5¾ - 5¾	6¼ - 6¼	6¼ - 6⅛	6⅛ - 6	5⅞ - 5¾	5¾ - 5¾
Discount Market deps	6 - 5¾	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 6 per cent from Jan 7, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Jan 8, 5.2903pc. ECGD fixed rate Stg. Export Finance. Make up day Dec 31, 1998. Agreed rate for period Jan 26, 1999 to Feb 25, 1999, Scheme III 7.74pc. Reference rate for period Dec 1, 1998 to Dec 31, 1998, Schemes IV & V 6.501pc. Finance House Base Rate 7pc for Jan 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.510	94.530	+0.030	94.550	94.490	39341	181447
Jun	94.970	94.930	-	94.980	94.920	45172	193384
Sep	95.130	95.090	+0.010	95.140	95.070	40161	171334
Dec	94.780	94.790	+0.030	94.840	94.780	20300	132384
Mar	95.110	95.100	+0.010	95.170	95.090	10314	[illegible]

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
94500	0.120	0.500	0.700	0.080	[illegible]	0.110
94625	0.065			0.160		
94750	0.035	0.320	0.520	0.255	0.140	[illegible]
94875	0.020			0.365		
95000	0.010	0.180	0.305	0.480	0.250	0.275
95125	0.005			0.600		

Est. vol. total, Calls 42860 Puts 24170. Previous day's open int., Calls 442805 Puts [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

Jan 13	Ecu cen. rates	Rate against Ecu €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	325.65	+1.85	−7.78	8.18	32
Denmark	7.46038	7.4432	−0.0092	−0.25	0.00	2
NON EMS MEMBERS						
UK	0.653644	0.70940	+0.0018	8.36	−7.84	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
1.630	0.65	[illegible]	2.19	0.58	1.60	[illegible]
1.640	0.31	1.19	1.75	1.17	2.27	2.86
1.650	0.09	0.88	[illegible]	1.98	2.86	-

Previous day's vol., Calls [illegible] Puts 210. Prev. day's open int., Calls [illegible] Puts 1,941

■ PHILADELPHIA SE D-MARK OPTIONS DM62,500 (cents per DM)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
0.595	0.61	1.02	1.31	0.03	0.36	0.55
0.600	0.27	0.73	1.02	0.11	0.55	[illegible]
0.605	0.05	0.40	0.77	0.47	0.81	1.01

Previous day's vol., Calls 8 Puts 3. Prev. day's open int., Calls [illegible] Puts [illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.25	-	-	95.00	94.98	80,636	472,584
Jun	94.93	-	-	95.25	95.02	114,511	455,574
Sep	95.02	-	-	95.23	95.02	115,892	[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.85	-	-	95.88	95.85	692	1,782
Jun	96.05	-	-	96.05	96.05	-	91

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
96875	0.080	0.095	0.110		0.010	0.025	0.040	
97000	0.010	0.030	0.055	0.190	0.065	0.085	0.110	0.095
97125	0	0.020	0.025		0.180	0.200	0.265	
97250	0	0.010	0.015	[illegible]	0.305	0.315	0.330	0.225

Est. vol. total, Calls 71734 Puts 1450. Previous day's open int., Calls 730773 Puts 387148

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
98750	0.110	0.140	0.170	0.100	0.330	0.470
98875	0.080			0.205		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3380 Puts 5962

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Exeter Trust Limited	7.00	●Singer & Friedlander	6.00
Allied Irish Bank (GB)	6.00	Financial & Gen Bank	6.00	Smith & Williamson	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	Sun Bank	6.00
Banco Bilbao Vizcaya	6.00	Habib Bank AG Zurich	6.00	TSB	6.00
Bank of Cyprus	6.00	Heritable & Gen Inv Bk	6.00	United Bank of Kuwait	6.00
Bank of Ireland	6.00	C. Hoare & Co	6.00	Unity Trust Bank Plc	6.00
Bank of India	6.00	●SG Hambros Bank & Trust	6.00	Whiteaway Laidlaw	6.00
Bank of Scotland	6.00	Hongkong & Shanghai	6.00	Yorkshire Bank	6.00
Barclays Bank	6.00	Investec Bank (UK) Ltd	6.00		
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.00		
●Brown Shipley & Co Ltd	6.00	●Leopold Joseph & Sons	6.00		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Midland Bank	6.25		
The Co-operative Bank	6.00	NatWestminster	6.00		
Coutts & Co	6.00	●Rea Brothers	6.00		
Cyprus Popular Bank	6.25	Royal Bk of Scotland	6.25		
Duncan Lawrie	6.00	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

Australia keeps up shipments to Iraq

By Gwen Robinson

Australia yesterday announced the sale of 600,000 tonnes of wheat to Iraq, its third largest wheat export market, with delivery set for the current quarter to March.

AWB, formerly a state-run organisation known as the Australian Wheat Board, said the sale proceeded under the United Nations Oil for Food programme "despite obstacles presented by the recent military confrontation" with Iraq.

"Despite the political complications, we have been able to continue supplying food to the Iraqi people ... and, at the same time, provide benefits to Australian farmers by continuing our long-term commercial relationship with our buyers in Iraq," said Mark Emons, AWB Middle East marketing manager. Under the programme, Iraq had been one of AWB's main customers, buying more than 1m tonnes of wheat a year.

In the last military confrontation involving US and UK forces, known as Operation Desert Fox, AWB had a vessel discharging Australian wheat within three days of the crisis, he said.

On the Sydney Futures Exchange, trading of wheat futures was stable and grain traders said news of the sale to Iraq had supported the market.

The pre-Christmas confrontation by US and UK forces had generated concern that Iraq would act to punish Australia for its support of US and British air strikes by cutting back on wheat purchases.

Iraq said this month it would impose trade sanctions on countries it considered "hostile", and began barring purchases of food and medicine from the US, UK, Japan and Switzerland.

Japanese set up A$5m tea plant in Victoria

By Gwen Robinson in Sydney

Australian farmers have agreed to establish a green tea plantation and processing plant for one of Japan's largest green tea producers. The deal follows other ventures for Japanese companies, including growing buckwheat for Japanese "soba" noodles and setting up rice processing plants for sake, or rice wine.

Myrtleford, in the south-eastern state of Victoria, this week announced a multi-million dollar venture with Ito En, of Japan, to establish a green tea plantation and processing facility.

The A$5m (US$3.2m) venture would be Australia's first combined green tea plantation and processing venture.

Ito En recently planted its first green tea plants in Myrtleford, and aims to have the processing plant running by 2002, according to the local development authority.

The original green tea rootstock from Japan will be propagated over several years, following an initial planting of 10 hectares. By mid-year, there will be 30 hectares, increasing to 60-70 hectares next year.

The green tea processing plant, which will be built near the plantation, would need 100 hectares, or about 2.6m plants, to operate effectively. The first crop would take about three years to mature, officials said.

Ito En conducted trials at about 14 other sites in Victoria over the past three years and chose Myrtleford because of its climate and suitability. The area is known for tobacco, grapes and other horticulture.

Officials said the new venture would allow local farmers to diversify their income base. The first 100 hectares of green tea would be worth just over $1m, but the added jobs to run the plants, plus construction associated with the venture was a "significant win", they said. The processed green tea would be exported to Japan.

Local authorities hope to expand the crop throughout the municipality as the processing plant expands. "This is an important first step. Ito En is a major retail name in Japan," an official said.

"In the past with new crops, there has been a weakness in linking with the market. Ito En will do the marketing. They will look after the exports for us," said Mark Henderson, chief executive of Alpine Shire, the local development authority. Japan consumes 100,000 tonnes of green tea a year.

The agreement comes amid booming sales of green tea in Japan. In the six months to last October, Ito En posted a 13 per cent increase in group net profit to Y2.7bn ($24.1m).

Revenue grew 14 per cent to Y83.4bn, with green tea sales at the parent company 25 per cent up at Y31bn.

For the year to April, Ito En projected a 35 per cent increase in net profit to Y4.6bn.

Australian iron ore groups fight to minimise price cuts

In negotiations with Japanese steel mills, exporters are playing a waiting game in a hostile climate, writes **Stephen Wyatt**

Australian iron ore producers, embroiled in a second round of negotiations with Japanese steel mills over 1999 contract iron ore prices and volumes, have settled in for a long haul.

Most analysts were forecasting a quick settlement, with the Australian iron ore producers, especially Rio Tinto's Hamersley, accepting lower prices for higher volumes. But the producers are fighting to minimise the price reductions they are facing.

"I take this as positive. If the iron ore producers continue to hold out for higher prices, they may be able to negotiate a price fall of just 3-7 per cent rather than the generally forecast 10 per cent," said Peter O'Connor, resources analyst with Credit Suisse First Boston in Sydney.

The Australian exporters – Hamersley Iron, BHP Iron Ore and North's Robe River – face the most hostile negotiating environment ever.

Global steel production is contracting sharply, and just before Christmas the Japanese steel mills were able to negotiate an 18 per cent reduction in 1999 contract coking coal prices with Australian coal exporters.

Iron ore and coking coal are the primary raw materials used in the manufacture of blast furnace crude steel. World pig iron production – a critical factor in the iron ore contract price negotiations – is declining at an accelerating rate.

Total world pig iron production in November fell 8.6 per cent, while western world pig iron production fell 9.8 per cent. Of concern to analysts is that the initial weakness in Asian pig iron production is spreading to the US and Europe.

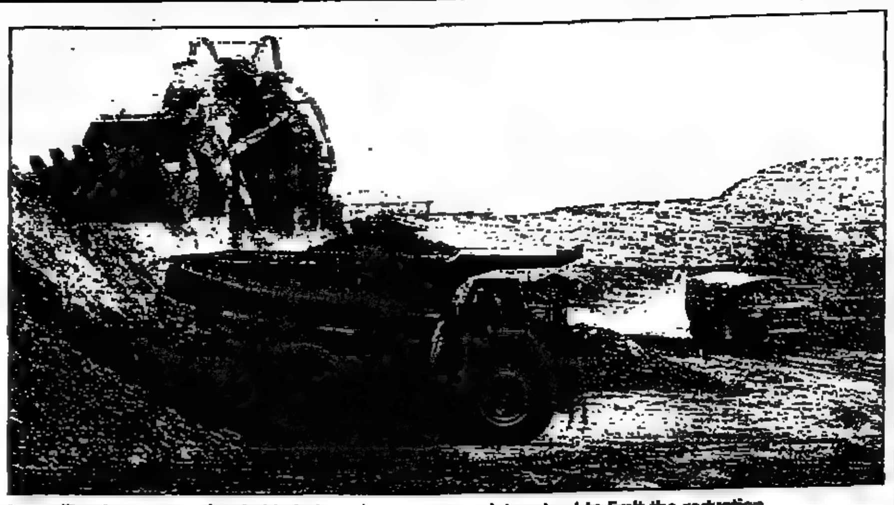
US pig iron production plummeted 19.1 per cent in November and European production was down nearly 11 per cent.

Japanese steel production is at its lowest level for 27 years, with forecasts of further falls to about 88m tonnes over the Japanese financial year 1999.

Australia is the world's largest exporter of iron ore and iron ore is Australia's fourth largest commodity export after coal, aluminium/alumina and gold. The Australian Bureau of Agricultural and Resource Economics, an independent government commodity forecasting and consulting group, forecasts that ore will generate A$4.3bn ($2.76bn) in export revenue in 1998-99.

The issue this week is not whether there will be a price cut but how deep the cut will be. The global steel industry is severely depressed.

It is a matter of gamesmanship; a matter of how to negotiate to keep price reductions to a minimum.



Iron will: price cuts are inevitable but producers appear determined to limit the reduction

In this second round of negotiations, Hamersley Iron was the first to negotiate with the Japanese steel mills, opening talks on Monday. Yesterday, BHP and Brazilian producer CVRD were scheduled to negotiate and, today, it is North's turn.

"Hamersley has been the bridesmaid for the past four years," said Peter O'Connor, resources analyst with Credit Suisse First Boston in Sydney.

By this he means that Hamersley stood by and let BHP settle first. The motivation to settle first is that the Japanese steel mills will often reward the early settler with higher contracted volumes.

"Suffice to say ... [Hamersley] ... is eager to be the price champion in 1999. More importantly, Hamersley is bringing on new capacity in 1999, via the Yandi mine development, and is in a position in which 'tonnes' may be more important than 'price'," said Mr O'Connor.

A number of analysts thought this might trigger a quick settlement on Monday, with Hamersley trading off price for volume, not dissimilar to the MIM and Shell strategy in the coking coal negotiations last month, when coking coal prices were cut by 18 per cent.

But there have been no reports of a settlement.

Once one producer agrees to a contract price with the Japanese steel mills the other producers would not only have to accept the, possibly lower, price but also watch the early settler reap the benefit of greater contracted volumes.

This is the dilemma the Australian iron ore exporters, especially Hamersley, face – whether to rush in and marry the Japanese steel mills quickly to get the wedding present of higher contractual export volumes, or play hard-to-get in the hope of higher prices.

Most analysts are forecasting a 1999 iron ore price cut of between 7 and 10 per cent.

This would be the first price cut after four consecutive years of iron ore price increases – 5.8 per cent in 1995, 6 per cent in 1996, 1.1 per cent in 1997 and 2.82 per cent in 1998.

Merrill Lynch is at the friendly end of forecasts, expecting a 7 per cent price reduction, while Gordon Cumming at AME Mineral Economics expects a price cut of between 6 and 9 per cent.

However, he adds that "if Australian exporters do not cave in [this week] there is a chance of getting a better result, like a cut of 4 to 6 per cent".

A price fall greater than 10 per cent would be negative, while a price fall of between 7 and 10 per cent would be neutral and a price cut of less than 7 per cent would be bullish, according to Mr O'Connor.

Brazilian turmoil fails to lift gold

MARKETS REPORT

By Gillian O'Connor and Caroline Fossey in London and Nikki Tait in Chicago

Gold again failed to live up to its reputation as a hedge against uncertainty: its price eased in spite of the Brazilian devaluation.

A Reuters poll of analysts predicted the average price in the first quarter of this year would be in the mid-$290s an ounce before rising to match its 1998 average of $294 by the year-end. The forecast was in line with the prediction from Gold Fields Mineral Services that the metal would stay in the $270-$310 range.

On the London Metal Exchange, base metal prices dropped back. "Tequila Maelstrom kills Metal Rally," was Flemings' summary of the upshot. Latin America is not nearly as important a metal consumer as the Asia region, but any loss of demand is harrowing in this environment, said Nick Moore of Flemings.

The oil price tumbled yesterday as news of a large stockpile in the US hit hopes of a recovery. The International Petroleum Exchange's benchmark February contract for Brent blend fell 65 cents to $10.85 a barrel before rallying to $11.15 in late trading.

At the Chicago Board of Trade, the Brazilian upheavals took their toll on soyabean futures. Amid fast market conditions, the March contract fell almost 5 cents to $5.336, close to a contract low, while the July contract was down 6 cents at $5.43.

Brazil is one of the largest producers of soyabeans and a big competitor to the US. The US is worried the fall in the Brazilian currency may encourage the country to put more produce on the export market and compete more strongly with US exporters.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	287.0	-2.3	288.7	286.00	48,925	75,008
Apr	289.1	-2.3	291.5	287.0	2,062	25,032
Jun	291.0	-2.3	293.0	289.5	1,279	16,885

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne) Jan 12

	Sett price	Day's change	High	Low	Vol	Open int
Jan	76.00	+0.20	76.50	76.00	15	302
Mar	76.25	+0.25	76.75	76.25	100	2,007
May	78.10	+0.10	78.40	78.10	66	[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne) Jan 12

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs) Jan 12

ENERGY

PRECIOUS METALS

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

PULP AND PAPER

■ POLPEX OMLX (US$, 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	415.00	-10.00	421.00	408.00	75	468
Jun	435.00	-12.00	441.00	431.50	75	107
Total					150	623

FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 raw (in shell) naturally opened (round): crop 1998 as follows: 28/30 at $2,750, CFR MEP, 20/22 at $3,550 CFR MEP. Turkish hazelnuts 13/15 and 11/13, crop 1998 indication $4,350 CFR. Market quiet. Indian cashews crop 1998 CFR from top shippers, W320 at $5,800, W240 at $6,650. Market turned round and falling slowly. US almonds standard 5 per cent crop 1998 at $3,600. Actual 1998 crop at 480m lb. Indication for crop 1999 at 3,380 FAS for St.5 per cent. All FAS. Moldovian walnuts crop 1998 offered as light halves and pieces at $2,550 CFR MEP (duty paid).

VOLUME DATA

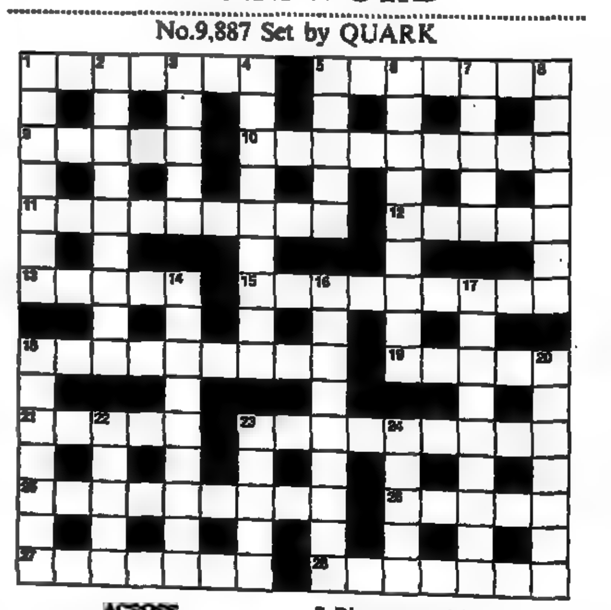
INDICES

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,887 Set by QUARK



ACROSS

1 Bishop's pawn to tell the story? (7)
5 The games player's record needs some catching up! (7)
9 Authorised, but without leader (very bad) (5)
10 Tennis? It's exciting and compelling (9)
11 Entry concession (9)
12 A service brought back for the tea (5)
13 Bulb lit up somehow (5)
15 The transporting of oil in boat could be ending (9)
18 Eye can tell endless lapses in welding substance (9)
19 A short line cast in always gets young fish (5)
21 Criminal held in lifelong sentence (5)
23 Different races are involved here (9)
25 One Greek character about on time but unrehearsed (9)
26 Burst of applause from the big guns? (5)
27 Concerning second in races the French support (7)
28 What the editor did and concluded about complaint (7)

DOWN

1 The country person's agreeable with removal of lake (7)
2 At home in France, informally (2,7)
3 Reference book in the end is incomplete (5)
4 Team lie in moves to get 15 (9)
5 Dip a second into the wine store (5)
6 Abandon the players with a team (4,5)
7 City takes up front position, we hear (5)
8 Crowd supervisor at northern game, perhaps (7)
14 Disbursing and letting go of the ropes gradually (7,3)
16 Generous section of school giving hospitality to all (4,5)
17 Lied, given shakes, being conned (9)
18 Very loud beginner – one in turn to cause suffering (7)
20 Make a comeback from the reserve pool (7)
22 Break circuits, say (5)
23 Fruit, very. soft, goes into the drink (5)
24 Follow various directions to university (English) (5)

Solution 9,886

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Gartmore Fund Managers Intl Ltd (z)
PO Box 578, 45 La Motte St., Jersey 01534 888888
[illegible]

Hill Samuel Fund Mgrs (Jsy) Ltd (1900)F
PO Box 657, New Street, St. Helier, Jersey 01534 604314
[illegible]

Lloyds Bank (CI) U/T Mgrs.
PO Box 311, St Helier, Jersey 01534 284242
[illegible]

Lloyds TSB Fund Managers (CI) Ltd
PO Box 8, St Helier, Jersey 01534 503002
[illegible]

Midland Bank Fund Managers (Jersey) Ltd
[illegible]

Newton Fund Mgrs (CI) Ltd (1200)F
PO Box 189, St Helier, Jersey 01534 266707
[illegible]

Murray Johnstone (Jersey) Limited
[illegible]

Newton Fund Managers (CI) Ltd
[illegible]

Northgate Unit Tst. Mngr. (Jersey) Ltd
Pacific Fund Jan 6 ... $33.50 35.54

Royal Bank of Scotland Fund Managers (CI) Ltd
[illegible]

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd
[illegible]

SG Hambros Fund Managers (Jersey) Ltd
[illegible]

Standard Bank Fund Mngmt (Jersey) Ltd
[illegible]

For TSB Fd Mngrs (CI) Ltd see Lloyds TSB Fd Mngrs

WMD Asset Management (Jersey) Ltd
[illegible]

Worldinvest (Managers) Jersey Ltd
[illegible]

Fidelity Funds (z)
Kansallis Hse, Place de l'Etoile, L-1021 Lux BP 2174
[illegible]

Prices as at January 12

Fleming Group (u)
6 Route De Treves L-2633 Senningerberg Luxembourg
[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Eagle Star Intl Life

Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

Old Mutual International - Contd.

Old Mutual International (Isle of Man) Ltd

PanEuroLife societe anonyme

Premier Life

Alpha Fund Management Ltd

The American Trust Bank

Arevis Capital Advisors LLC

Ardent Investment Management Limited

Argent Fund Management Limited

Arisaig Partners (BVI) Ltd

Aristocrat Capital Management Ltd

Arnhold and S. Bleichroeder, Inc

Asia Debt Management Hong Kong Ltd

Asia Pacific Securities Corp Ltd

Dresdner RCM Global Investors (UK) Ltd

Dresdner Bank Investment Group

ESS Overseas Fund Ltd

East Europe Development Fund Ltd

Edelweiss Portfolio Ltd

Edinburgh Fund Managers (Bermuda) Ltd

Glaso Capital Limited

The Glasmore Property Fund Ltd

Global Asset Management

Global Asset Management - Contd.

The Environmental Investment Co Ltd

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

FT Free Annual Reports Club

[illegible]

FT Cityline

[illegible]

The FT web site

[illegible]

LONDON STOCK EXCHANGE

Brazil currency turmoil triggers flight to quality

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

At the finish of a grim session in London's equity market yesterday, the FTSE 100 was left nursing a 183.5 fall at 5,850, its biggest single-day decline in both points and percentage terms, since December 1.

Although the index finished well above its session-low of 5,746.5, when it was down 287.1, the market's retreat wiped out all the big gains since the new year.

And the stock market pain extended right across the board with the FTSE 250 registering its first three-figure slide since October 8 and the SmallCap also being punished.

The 250 index settled 102.0 lower at 4,874.4, almost erasing its new year gains while the SmallCap index dipped 31.2 to 2,108.6.

A revival of turmoil in Brazil and the resulting "flight to quality" – a shift out of equities and into gilts and bonds – was to blame for the selling pressure that engulfed global stock markets, starting in the Brazilian bolsa, before moving on to Wall Street and then infecting Asian and European markets.

São Paulo's 7 per cent decline on Tuesday was followed by a 145-point slide in the Dow Jones Industrial Average overnight and a 4 per cent fall in the Hong Kong market.

The FTSE 100 began on the retreat and quickly went into freefall with news of the resignation of the head of the Brazilian central bank and expectations of a fresh and even bigger retreat in Brazilian equities.

The index hit its lowest point just before Wall Street opened for business with US investors, anticipating a big sell-off on Wall Street, apparently selling London and other European markets.

Wall Street duly came in sharply lower, the Dow retreating more than 200 points before fighting back strongly; 90 minutes after London closed, the Dow showed just an 80-point fall.

Commenting on the market setback Corey Miller, UK equity market strategist at Paribas, said: "We've been here before, last Autumn in fact, and then the policymakers in the US, here and the rest of Europe baled out the markets by cutting interest rates.

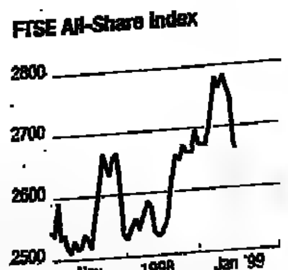
"It is worth mentioning that the Federal Reserve's open market committee meets on February 3 and the Bank of England's monetary policy committee the day after. I think this setback is a good buying opportunity," he said.

David McBain, UK market strategist at BT Alex Brown, said markets did get too carried away and ignored concerns about the potential for international difficulties and a slowing UK economy: "This is a timely and painful reminder," he said. "Markets will remain volatile in the short term."

Richard Jeffrey at CCF Charterhouse said: "Markets always overreact to these situations. We simply don't know how deep these problem could become. The fear is you can't ring-fence the situation. On the domestic front my worry is the economy is more robust than expected. Today's jobs report was much stronger than forecast."

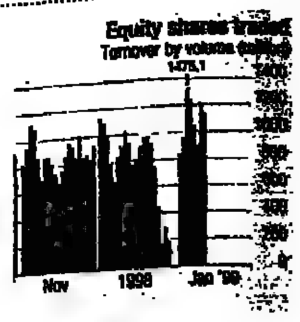
Marketmakers tended to adopt the view that the Brazilian situation will prove a short-term problem. Turnover at 6pm was 1.13bn.

FTSE All-Share Index



Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5850.1	−183.5
FTSE 250	4874.4	−102.7
FTSE 350	2761.1	−82.2
FTSE All-Share	2665.81	−77.52
FTSE All-Share yield	2.94	2.86

FT 30	3491.1	−110.8
FTSE Non-Fins p/e	23.22	22.77
FTSE 100 Fut Mar	5843.0	−210.0
10 yr Gilt yield	4.41	4.30
Long gilt/equity yld ratio	1.50	1.57

Best performing sectors

1. Gas Distribution +1.0
2. Diversified Industrials +0.3
3. Health Care −0.3
4. Utilities −0.6
5. Retailers: General −0.7

Worst performing sectors

1. Banks: General −4.9
2. Life Assurance −4.2
3. Engineering −4.1
4. Alcoholic Beverages −4.0
5. Insurance −3.6

Lloyds exposed to debt

COMPANIES REPORT

By Peter John, Joel Kibazo and Bertrand Benoit

Lloyds TSB fell sharply, leading UK bank stocks down amid concerns over its exposure to Brazil and other emerging markets.

The bank sector was responsible for about a quarter of the FTSE 100's decline in early trading. Concerns on the Brazilian economy, including news that Gustavo Franco, central bank president, was to resign, helped send equity markets lower.

Lloyds, which has around 3 per cent of its assets in South America, mostly in Argentina, fell 43 to 821½p. HSBC, which according to one broker has some $2bn of exposure in Brazil and South America, as well as a stake in Mexico's Banco Serfin, slipped 125 to £16.28. It was knocked 3.5 per cent in Hong Kong, on sharp Wall Street losses and worries about debts in the China sector.

However, analysts said the fall in Lloyds' share price was only a knee-jerk reaction. One said: "Obviously if the situation in Brazil worsens, Lloyds will be affected but I think the impact should not be as grave as the share decline seems to be suggesting."

Other banks were also unsettled by the Brazil situation. Standard Chartered fell 84 to 742p and NatWest 105 to £10.05.

The sharp market retreat failed to check the strong advance that propelled electrical goods retailer Dixons Group to a record close after it reported better-than-expected data.

In a sector recently noted for negative news, Dixons reported half-year profits (before exceptional items) for the 28 weeks to the begining of November, of £80.8m against market expectations around the £75m mark.

Analysts were particularly pleased with current trading, which saw like-for-like sales in the first eight weeks of the second half improve 3 per cent on a year earlier. "The tone of the meeting was not only confident but very positive, which reassured many of us," said one specialist.

The shares jumped 44 or nearly 5 per cent to 958p to make it the day's best Footsie performer, as turnover expanded to 7.9m.

There was no escaping the misery among some of the engineers as Morgan Crucible joined the list of companies that have recently issued profits warnings and sent their shares plunging.

By the close, the stock had surrendered 79 or more than 30 per cent to 183½p, by far the worst performer in the FTSE 250. It dragged Cookson Group lower, those shares closing 12 off at 122½p. Morgan said poor results in November and December would reduce its pre-exceptional profits by 15-20 per cent below last year's £108.3m.

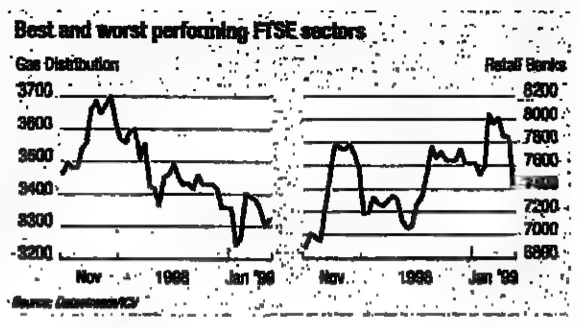
Other stocks following the trend included IMI, off 18¼ to 205½p, and Johnson Matthey, which fell 26 to 383½p.

Guardian Royal Exchange rose in early trading after a newspaper report that Axa of France had made a bid approach at 360p a share. Analysts said investors would be very happy to receive a 25 per cent premium to net asset value. With the shake-out in the market the stock was taken back to close only marginally firmer at 337½p.

Sears, which in December received two bid approaches from entrepreneur Philip Green, was the best performing FTSE 250 stock after it announced the disposal of its credit card business and an increase in the amount it plans to return to shareholders. Sears rose 25 to 310½p.

The group said it planned to raise the amount of cash to be returned from a minimum of £84m, which it announced in October, to £215m.

Best and worst performing FTSE sectors



Source: Datastream/ICV

Kingfisher bounces

Kingfisher was among a handful of retailers to buck the market trend. The shares bounced from Tuesday's decline to close a penny harder at 625½p.

Although Kingfisher reported positive trading over the Christmas period, analysts pointed to the lower than expected performance from B&Q, the company's DIY division, for this week's reduction in profits forecasts following publication of the group's trading update.

A press report suggesting Marks and Spencer is to unveil poor Christmas sales figures and a management shake-up triggered an initial sell-off in the high street retailer. The shares fell to 385p before recovering to close 10 down at 393½p.

Hopes that British Energy might acquire London Electricity from Electricité de France, or at least one of the two coal-fired plants put up for sale by PowerGen, helped the stock rise 2 to 685½p.

The market trend prompted a share-buyback in Charter. The company said it had bought back 1m shares for cancellation at 345p a share. The stock fell 15 to 347¼p.

Shares in Siebe, which yesterday won shareholder approval for its merger with BTR, closed 9½ off at 208¾p. The shares stood at 215p when the deal was announced in November. BTR shares ended the day 4¼ off at 112¼p.

Nord Anglia Education gained 14 to 142½p on a statement that 1998 results would show "good progress in most of its divisions".

Limelight, the home improvement group, gained 3 to 33½p. A rare retailer not to be hit by a disappointing sale period, the company said sales over the first 16 days were up 8 per cent on last year.

Whittard of Chelsea, the tea and coffee retailer, dropped 21½ to 69½p on a profits warning. Cirqual, the engineering company, lost 68½ to 134p, following profits warning and news that merger discussions had collapsed.

Yorklyde fell 20½ to 56½p after the luxury goods manufacturer said it would record a loss for the year and planned to cuts its final dividend payout.

The company said after further deterioration in trading conditions in its core business, it expected a current-year loss before tax of about £1.3m against a profit of £960,000 for the year to January 1998.

News of a positive recommendation from the US Food and Drug Administration for its Chirocaine product pushed Chiroscience higher but it fell back in late trading to end 4¼ off at 261½p.

Aegis, the media buying group, held up against the market rout with a gain of 1¾ to 101p. HSBC has a "buy" recommendation on the stock and highlights the winning of a $280m Pfizer account against strong competition.

FT 30 INDEX

	Jan 13	Jan 12	Jan 11	Jan 8	Jan 7	Yr ago	*High	*Low
FT 30	3491.1	3601.9	3541.2	3563.1	[illegible]	3268.9	4004.9	2790.8
Ord. div. yield	2.96	2.87	2.84	2.82	2.84	3.44	4.22	2.72
P/E ratio net	22.63	23.37	23.62	23.80	23.64	21.09	25.41	15.80
P/E ratio nil	22.53	23.26	23.52	23.70	23.54	20.81	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98; low 49.4 6/26/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3601.9	3522.8	3610.1	3608.0	3473.0	3454.1	3455.8	3481.9	3601.9	3442.8

STOCK MARKET TRADING DATA

	Jan 13	Jan 12	Jan 11	Jan 8	Jan 7	Yr ago
SEAQ bargains	88,728	75,803	77,314	81,474	87,312	82,940
Equity turnover (£m)†	-	4211.8	3902.2	4001.5	6554.8	2208.7
Equity bargains†	-	86,011	84,646	89,544	77,494	45,804
Shares traded (mil)†	-	1116.4	1005.4	1090.2	1893.6	715.6
Total market bargains‡	-	78,770	74,137	80,630	68,149	-
Total turnover (£m)‡	-	6012.0	4603.8	6768.8	7809.2	-
Total shrs traded (mil)‡	88,030*	1201.1	1164.2	1293.3	2117.2	-
Tradepoint turnover (£m)	40.9	21.4	23.6	[illegible]	27.5	15.3
Tradepoint shrs traded(m)	13.2	12.4	9.3	14.4	12.2	7.0

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	244	Total Highs	38	Total contracts	62,603
Total Falls	1,556	Total Lows	62	Calls	19,757
Same	1,009			Puts	42,846

Jan 13 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5975.0	5843.0	-210.0	6005.0	5760.0	49767	174436
Jun	5975.0	5883.0	-213.0	5975.0	5975.0	275	15290
Sep		5924.0	-217.0			0	750

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	4900.0	4910.0	-110.0	4900.0	4900.0	300	6933
Jun	4917.0	4927.0	+10.0	4917.0	4917.0	300	0

■ FTSE 100 INDEX OPTION (LIFFE) (*5825) £10 per full index point — Jan 13

	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P
Jan	140	26	113½	39½	80	57½	58½	83	34	115½	19½	157½	10½	207	4½	257
Feb	364½	205½	334½	225½	304½	245½	274	265½	244	285	213½	308½	191½	336½	169½	365
Mar	445	297½	415	217½	384½	337½	354	357½	323½	377½	293	398	267½	425	246	454
Apr	546½	389	507	399½	468	410½	450	422	390½	434	392	447	319	466	289	499
Jun†	660½	476			[illegible]	516			646	555			477½	590		

Calls 1,674 Puts 2,708

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Jan 13

	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P
Jan	170½	20½	129½	29½	94	44	64½	64½	41	91	24½	124	12½	162½	6½	208½
Feb	384½	185½	395½	206½	302	221½	272½	243	245	265	[illegible]	[illegible]	194½	314	173½	342½
Mar	480½	284½	416	299	391½	324½	365	347	338	387½	[illegible]	[illegible]	288	413½	257½	437½
Jun			657	503			595½	540			534½	575½			476	613½
Sept			782½	601½			725	640			663	684			600	727

Calls 9,035 Puts 20,389 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	15.0	100	95	AIM VCT	100		-	-	-	-
-	F.P.	-	95½	91½	Abbey Natl Dublin	93	+½	-	-	-	-
§	F.P.	38.5	123	116½	BFS O'seas Inc	121½		Wi12.65	-	10.4	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100	F.P.	-	103	92	REXAM B	95		-	-	-	-
§	F.P.	16.0	100	100	Singer&Frd AIM VCT	100		-	-	-	-
-	F.P.	2.61	85	75	Willington	77½		R8.0	2.7	7.7	3.2
-	F.P.	-	16½	5	[illegible]	[illegible]	+1½	-	-	-	-
-	F.P.	25.8	[illegible]	87½	[illegible]	[illegible]	+1	¶9.5	-	10.6	-
-	F.P.	0.39	6	4½	Do Cap	5½	−½	-	-	-	-
-	F.P.	30.0	113	102	Do Zero Div Prf	112½	+½	-	-	-	-
-	F.P.	-	98	96	Do Equity Units	97		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jan 12	% chg on day	Jan 11	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (25)	1077.81	−2.7	1046.27	891.33	1.76	1022.69	1361.07	701.69
■ Regional Indices								
Africa (9)	1093.10	0.6	1086.70	920.96	3.53	1104.16	1488.04	765.63
Australasia (6)	1268.91	1.3	1280.85	1055.57	2.43	1276.85	1600.83	816.93
Americas (11)	955.65	−6.1	1007.02	664.85	0.78	957.88	1317.41	647.89

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Jan 13	Day's chge%	Euro Index	£ Stg Jan 12	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5850.1	−3.0	6433.9	6033.6	5106.9	2.80	2.38	1.89	23.64	1.34	2390.89
FTSE 250	4874.4	−2.1	5360.9	4977.1	4823.3	3.43	2.84	2.14	17.07	1.10	2120.97
FTSE 250 ex Inv Tr	4885.9	−1.9	5373.5	4981.8	4865.8	3.57	3.08	2.22	15.77	1.03	[illegible]
FTSE 350	2761.1	−2.9	3036.6	2843.3	2461.9	2.89	2.47	1.94	22.33	0.63	2499.30
FTSE 350 ex Inv Tr	2767.3	−2.9	3043.5	2849.8	2465.8	2.90	2.49	1.95	22.10	0.63	1264.12
FTSE 350 Higher Yield	2551.9	−2.8	2806.6	2626.7	2465.9	4.06	3.45	1.63	16.80	0.99	1983.42
FTSE 350 Lower Yield	2983.2	−2.9	3280.9	3073.5	2472.5	1.75	1.52	2.17	32.95	0.72	2184.92
FTSE SmallCap	2108.58	−1.5	2318.99	2139.77	[illegible]	3.86	3.18	2.08	15.71	2.20	1864.13
FTSE SmallCap ex Inv Tr	2070.67	−1.2	2277.32	2096.42	[illegible]	4.11	3.38	2.18	13.96	2.24	[illegible]
FTSE All-Share	2665.81	−2.8	2931.85	2743.33	2406.42	2.94	2.51	1.94	21.89	0.71	2449.27
FTSE All-Share ex Inv Tr	2675.86	−2.8	2942.91	2753.67	[illegible]	2.95	2.52	1.96	21.58	0.70	1264.99
FTSE Fledgling	1165.11	−1.3	1281.39	1180.46	1277.00	4.32	3.80	1.33	21.76	0.92	1312.98
FTSE Fledgling ex Inv Tr	1174.74	−0.9	1291.97	1185.60	1304.88	4.94	4.00	1.37	18.47	0.98	1331.23
FTSE All-Small	1197.76	−1.4	1317.28	1215.97	1330.64	3.96	3.26	1.90	16.69	1.19	[illegible]
FTSE All-Small ex Inv Tr	1199.72	−1.2	1319.45	1213.86	1359.36	4.27	3.51	1.99	14.67	1.23	1364.26
FTSE AIM	806.5	−0.6	887.0	812.8	980.0	1.32	1.06	1.01	80.00†	0.20	750.21

■ FTSE Actuaries Industry Sectors

	£ Stg Jan 13	Day's chge%	Euro Index	£ Stg Jan 12	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(16)	4009.23	−2.1	4409.35	4093.86	4336.16	3.62	3.15	1.17	[illegible]	0.00	1871.03
12 Extractive Industries(6)	2719.61	−2.4	2991.02	2786.90	2835.34	5.03	[illegible]	1.99	12.48	0.00	877.20
15 Oil, Integrated(3)	4688.42	−2.1	5156.32	4787.03	4800.27	3.47	3.00	1.06	[illegible]	0.00	2249.69
16 Oil Exploration & Prod(5)	1392.72	−1.2	1531.71	1410.32	[illegible]	4.00	3.49	0.97	[illegible]	0.00	[illegible]
20 GEN INDUSTRIALS(192)	1727.25	−2.7	1899.63	1776.00	1945.57	4.23	3.76	2.24	13.18	[illegible]	1034.40
21 Construction(37)	1212.29	−2.4	[illegible]	1242.04	1300.17	4.21	3.42	3.02	9.84	0.46	1100.21
22 Building Matls & Merchs(24)	1514.08	−0.8	1665.18	1526.01	[illegible]	4.99	4.31	2.11	11.86	0.33	844.74
23 Chemicals(20)	1796.99	−2.2	1976.33	[illegible]	2479.22	5.07	4.78	1.84	13.38	0.09	934.28
24 Diversified Industrials(4)	1111.68	+0.3	1222.60	1108.66	1248.66	[illegible]	5.05	1.66	12.98	0.00	705.59
25 Electronic & Elect Equip(25)	2756.99	−2.2	3032.13	2818.20	2176.65	2.77	2.36	1.89	22.67	0.00	1545.04
26 Engineering(54)	2176.44	−4.1	2393.64	2268.75	2863.93	4.44	3.98	2.23	12.63	2.78	1434.48
27 Engineering, Vehicles(10)	3427.84	−3.1	3769.94	3537.54	3475.50	2.61	2.40	3.23	14.81	0.00	1909.97
28 Paper, Pckg & Printing(18)	1532.25	−2.3	1685.17	1568.31	2111.87	6.82	6.33	2.36	7.76	2.42	708.74
30 CONSUMER GOODS(92)	6153.10	−3.9	6767.17	[illegible]	5035.96	2.21	[illegible]	1.92	29.44	0.25	2461.15
32 Alcoholic Beverages(5)	3660.92	−4.0	4026.27	[illegible]	3297.08	3.38	[illegible]	2.13	17.39	0.34	1467.73
33 Food Producers(26)	3620.65	−3.2	3981.99	3740.48	3374.74	2.48	2.15	2.31	21.84	0.10	1774.82
34 Household Goods & Texts(14)	2023.22	−1.4	2225.14	2051.42	3030.67	5.05	4.57	1.98	12.59	0.80	869.10
36 Health Care(14)	2460.38	[illegible]	2705.93	2468.72	2274.81	2.10	1.83	2.11	28.23	0.96	1589.61
37 Pharmaceuticals(20)	11181.75	−3.0	12297.68	11522.77	8435.88	1.57	1.47	1.81	49.43	0.08	4029.45
38 Tobacco(3)	7513.16	−2.5	8262.96	7702.28	4826.06	4.57	3.82	2.04	[illegible]	0.00	2140.79
40 SERVICES(286)	3550.36	−2.2	3904.68	3630.96	2868.67	2.42	2.00	2.10	[illegible]	2.23	1976.42
41 Distributors(26)	1608.23	−1.8	1968.69	1840.58	2921.46	5.25	4.35	2.01	11.87	1.12	728.46
42 Leisure & Hotels(31)	3242.78	−3.4	3566.38	3356.09	3447.17	2.83	2.51	2.85	15.49	14.89	[illegible]
43 Media(47)	4471.18	−1.7	4917.40	4548.48	4026.13	2.32	1.97	2.15	[illegible]	0.06	1709.02
44 Retailers, Food(13)	2804.06	−1.6	3083.90	2850.30	2759.82	3.27	2.61	[illegible]	17.89	0.00	1933.88
45 Retailers, General(42)	2063.85	−0.7	2269.93	2079.24	2277.75	3.62	2.91	2.09	[illegible]	3.38	1278.99
46 Telecommunications(7)	5624.92	−2.9	6186.29	5794.51	2805.31	1.60	1.31	1.59	49.21	0.00	2772.69
47 Breweries, Pubs & Rest.(24)	3428.17	−2.8	3770.30	3525.92	3524.67	3.66	2.97	2.22	[illegible]	7.66	[illegible]
48 Support Services(59)	4758.78	−2.8	5233.71	4896.78	3568.67	1.32	1.13	2.78	[illegible]	[illegible]	[illegible]
49 Transport(29)	3408.95	−1.2	3749.15	3449.98	2863.29	3.07	2.59	2.10	19.39	0.86	1539.53
60 UTILITIES(20)	4137.90	−0.6	4550.75	4163.76	3854.03	3.87	3.28	1.67	19.27	0.00	2013.25
62 Electricity(7)	4718.43	−1.2	5189.32	4773.62	4044.52	4.28	3.48	1.71	17.06	0.00	2818.68
64 Gas Distribution(2)	3334.34	+1.0	3667.10	3301.48	2893.62	2.03	1.62	‡	‡	0.00	1943.59
68 Water(11)	3296.69	−1.3	3625.70	3339.59	3351.91	5.08	[illegible]	2.38	10.35	0.00	2078.56
69 NON-FINANCIALS(606)	2730.05	−2.3	3002.51	2795.33	2418.26	2.85	2.46	1.89	23.22	0.93	2253.68
70 FINANCIALS(120)	5044.04	−4.3	5547.43	5271.43	4793.70	3.27	2.71	2.16	17.70	0.12	2362.11
71 Banks, Retail(12)	7460.26	−4.9	8204.79	7843.91	6850.11	[illegible]	2.75	2.14	17.00	0.00	2644.86
73 Insurance(21)	2254.87	−3.6	2479.69	2338.59	[illegible]	[illegible]	2.97	1.91	20.81	0.12	[illegible]
74 Life Assurance(6)	7371.99	−4.2	8107.71	7694.74	6175.55	2.61	2.26	2.70	17.73	0.00	3323.25
77 Other Financial(31)	[illegible]	−2.5	4078.72	3804.27	3779.61	2.98	2.47	2.53	16.56	0.87	2201.45
79 Property(48)	1738.56	−1.7	1911.86	1768.36	2213.80	3.60	3.08	1.60	21.72	0.08	1158.52
80 INVESTMENT TRUSTS(117)	3589.08	−2.8	3948.17	3692.42	3398.01	2.33	1.92	1.15	46.69	1.59	1320.43
89 FTSE All-Share(837)	2665.81	−2.8	2931.85	2743.33	2406.42	2.94	2.51	1.94	21.89	0.71	2449.27
105 FTSE All-Share ex Inv Tr(720)	2675.86	−2.8	2942.91	2753.67	2412.25	2.95	2.52	1.96	21.58	0.70	1264.99
Information Technology	1552.81	−2.8	1707.78	1597.58	1060.68	0.61	0.49	4.22	48.83	0.00	1560.98

■ Hourly movements

	9.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5984.2	5906.1	5888.2	5867.3	5783.0	5788.7	5778.7	5838.5	5984.2	5746.5
FTSE 250	4953.2	4918.9	4900.5	4889.9	4873.1	4857.4	4853.0	4862.6	4953.2	4851.4
FTSE 350	2821.5	2787.3	2778.6	2769.3	2734.1	2726.3	2730.7	2754.6	2821.5	2718.5
FTSE SmallCap	2132.46	2127.05	2122.41	2118.64	2116.66	2111.49	2107.11	2107.41	2135.62	2106.09
FTSE All-Share	2722.81	2691.06	2682.71	2674.04	2641.49	2633.96	2637.75	2659.80	2722.81	2626.77

Time of FTSE 100 Day's high: 9:03:00 Day's low: 14:05:30. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 9:03:00 Day's low: 14:05:00 FTSE All-Share 1998 High: 2865.20 (20/07/98) Low: 2158.07 (05/10/98)

Further information is available on http://www.ftse.com.

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Name change: Old: Air London International, New: Air Partner (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	3,800	612	−8½
AMVESCAP	1,580	519	−31
ASDA Group	11,800	158½	−1½
Abbey National	3,100	1264	−39
Alliance & Leicester	1,600	846	−12
Allied Domecq	9,800	497	−18
[illegible]	[illegible]	[illegible]	[illegible]

صكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Jan 13) 1 € = 13.7603 Sch

BELGIUM/LUX (Jan 13) 1 € = 40.3399 Frs.

FINLAND (Jan 13) 1 € = 5.94573 Mk

FRANCE (Jan 13) 1 € = 6.55957 Frs.

GERMANY (Jan 13) 1 € = 1.95583 Dm.

IRELAND (Jan 13) 1 € = 0.787564 Punt

ITALY (Jan 13) 1 € = 1936.27 Lire

NETHERLANDS (Jan 13) 1 € = 2.20371 Fl.

PORTUGAL (Jan 13) 1 € = 200.482 Esc.

SPAIN (Jan 13) 1 € = 166.386 Pts.

EUROPE (NON-EMU)

CZECH REP (Jan 13 / Koruna)

DENMARK (Jan 13 / Kr)

GREECE (Jan 13 / Drachma)

NORWAY (Jan 13 / Kroner)

POLAND (Jan 13 / Zloty)

SWEDEN (Jan 13 / Kronor)

SWITZERLAND (Jan 13 / Frs.)

TURKEY (Jan 13 / Tk Lira)

PACIFIC

JAPAN (Jan 13 / Yen)

HONG KONG (Jan 13 / H.K.$)

INDONESIA (Jan 13 / Rupiah)

MALAYSIA (Jan 13 / MYR)

NEW ZEALAND (Jan 13 / NZ $)

SINGAPORE (Jan 13 / S$)

AUSTRALIA (Jan 13 / Aust$)

SOUTH KOREA (Jan 13 / Won)

TAIWAN (Jan 13 / TW $)

THAILAND (Jan 13 / Baht)

MONTREAL (Jan 13 / Can $) 4 pm close

MEXICO (Jan 13 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Jan 13 / Rand)

AMERICAS

CANADA

TORONTO (Jan 13 / Can $) 4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JANUARY 12 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JANUARY 11 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (78)	211.87	0.0	192.64	148.73	211.37	219.46	-0.1	3.34	211.87	191.51	146.41	211.52	219.79	219.86	183.86	198.26
Austria (21)	183.32	-0.4	165.89	128.55	181.38	181.38	-0.5	2.16	184.08	166.39	127.20	182.16	182.16	253.73	168.45	181.88
Belgium (22)	417.28	-1.1	379.42	294.89	359.66	359.66	-1.1	1.88	421.71	381.20	291.41	363.73	363.73	446.95	250.39	250.39
Brazil (32)	116.11	-3.0	105.56	82.06	115.84	258.82	-2.9	3.49	118.67	108.18	82.70	119.48	266.50	289.34	102.86	212.21
Canada (117)	209.06	-2.0	190.09	147.74	208.57	228.21	-2.0	1.71	213.30	192.81	147.40	212.95	232.84	248.78	158.94	199.10
Denmark (34)	501.53	-0.1	456.02	354.43	500.38	439.86	-0.2	1.80	502.15	453.91	347.00	501.39	440.72	537.33	420.12	438.44
Finland (28)	623.04	0.6	566.51	440.30	673.57	673.57	0.5	1.49	619.44	559.93	428.05	670.14	670.14	624.97	257.59	257.59
France (75)	334.39	-2.2	304.05	236.32	298.11	298.11	-2.3	2.11	342.01	309.15	236.34	305.11	305.11	354.45	225.24	225.24
Germany (55)	285.22	-1.3	259.34	201.56	251.26	251.26	-1.3	1.29	288.89	261.13	199.63	254.87	254.87	325.61	218.59	218.59
Greece (38)	380.33	-0.1	345.82	268.78	379.45	765.19	-0.1	1.11	380.73	344.15	263.09	380.11	768.17	388.53	211.47	—
Hong Kong, China (67)	326.19	0.5	296.59	230.52	325.43	324.50	0.6	3.77	324.43	293.26	224.18	323.90	322.73	362.55	196.64	262.93
Indonesia (26)	54.26	0.2	49.34	38.34	54.13	267.95	1.4	1.14	54.15	48.95	37.42	54.06	264.11	64.52	19.04	32.80
Ireland (16)	566.63	-1.5	515.22	400.44	544.79	544.79	-1.4	1.73	574.13	518.97	396.74	552.39	552.39	605.86	395.98	395.88
Italy (53)	179.01	-2.2	162.77	126.51	224.28	224.28	-2.3	1.24	183.07	165.49	126.51	229.53	229.53	192.84	122.67	122.67
Japan (445)	98.41	-2.3	89.48	69.54	98.18	69.54	0.0	1.07	100.88	91.01	69.57	100.52	69.57	109.73	76.83	88.52
Mexico (29)	975.88	-5.0	887.34	689.66	973.61	10778.63	-3.4	2.38	1027.23	928.54	709.84	1025.55	11161.56	1733.73	787.15	1576.56
Netherlands (26)	513.00	-1.3	466.45	362.54	447.04	447.04	-1.4	2.12	519.88	469.93	359.25	453.35	453.35	562.73	301.03	301.03
New Zealand (18)	64.12	-1.6	58.30	45.32	63.97	62.20	-1.6	4.69	65.17	58.91	45.03	65.06	63.20	77.84	45.88	71.49
Norway (37)	242.42	-2.1	220.42	171.32	241.85	244.95	-1.7	2.38	247.53	223.75	171.05	247.13	249.26	367.71	181.88	281.62
Philippines (22)	96.46	0.1	87.71	68.17	96.24	182.20	0.7	0.81	96.39	87.13	66.61	96.23	180.88	106.98	42.48	59.80
Portugal (18)	269.84	-1.1	245.35	190.69	320.81	320.81	-1.1	1.03	272.72	246.52	188.46	324.46	324.46	299.39	194.13	—
Singapore (41)	229.49	-0.8	208.66	162.18	228.95	177.56	-0.4	1.60	231.22	209.01	159.78	230.84	178.26	246.74	102.45	144.01
South Africa (38)	197.31	-0.5	179.41	139.44	196.85	260.39	0.6	3.64	198.27	179.23	137.01	197.95	258.72	346.20	151.55	227.66
Spain (30)	400.58	-2.3	364.23	283.09	437.47	437.47	-2.4	1.85	409.92	370.54	283.27	447.98	447.98	436.19	274.42	274.42
Sweden (44)	527.58	-1.7	479.71	372.84	526.36	612.17	-1.9	1.87	536.82	485.25	370.96	536.94	623.88	628.19	379.18	438.96
Switzerland (30)	425.53	-0.1	386.92	300.72	424.53	366.93	-0.6	1.16	425.88	385.04	294.35	425.26	369.08	441.85	307.73	325.49
Thailand (35)	26.61	0.0	24.19	18.80	26.54	37.61	0.5	2.52	26.59	24.04	18.38	26.55	37.41	33.84	8.15	13.10
United Kingdom (207)	380.25	-1.4	345.75	268.72	379.36	345.75	-0.8	2.85	385.62	348.57	266.47	384.99	348.57	401.84	307.96	322.35
USA (616)	511.30	-1.9	464.91	361.34	510.11	511.30	-1.9	1.28	521.22	471.15	360.18	520.37	521.22	525.31	382.78	382.78
Americas (794)	453.78	-1.9	412.59	320.67	452.70	384.82	-1.9	1.31	462.66	418.21	319.71	461.91	392.13	466.36	346.72	346.72
Europe (733)	364.99	-1.4	331.87	257.94	364.14	334.70	-1.3	2.02	370.09	334.54	255.74	369.49	339.03	386.24	279.29	279.29
Eurobloc (345)	106.80	-1.6	97.11	75.48	101.84	101.84	-1.7	1.70	108.57	98.14	75.05	103.59	103.59	113.92	81.53	—
Nordic (144)	513.63	-0.9	467.03	362.98	512.44	512.10	-0.8	1.75	518.15	468.37	358.06	517.31	516.90	555.97	360.04	388.51
Pacific Basin (730)	107.71	-1.8	97.94	76.12	107.46	79.35	0.0	1.57	109.63	99.10	75.76	109.45	79.35	119.48	82.88	95.32
Euro-Pacific (1463)	214.69	-1.5	195.21	151.72	214.19	175.24	-0.9	1.89	217.93	196.99	150.59	217.57	178.86	221.79	166.00	172.03
North America (733)	490.92	-1.9	446.37	346.93	489.77	491.81	-1.9	1.29	500.46	452.38	345.83	499.84	501.36	504.30	370.97	370.97
Europe Ex. UK (526)	344.39	-1.4	313.14	243.38	343.58	319.03	-1.5	1.82	349.18	315.64	241.29	348.61	323.89	368.32	250.03	250.03
Europe Ex. Eurobloc (388)	98.42	-1.1	89.49	69.55	98.19	98.46	-0.8	2.97	99.53	89.97	68.78	99.36	99.26	103.93	77.40	—
Europe Ex. UK Ex. Eurobloc (181)	101.70	-0.5	92.47	71.87	101.48	97.42	-0.8	1.39	102.25	92.42	70.65	102.08	98.26	109.21	75.16	—
Pacific Ex. Japan (285)	193.51	0.1	175.95	136.75	193.06	195.64	0.1	3.35	193.29	174.72	133.57	192.98	195.43	216.04	128.26	161.31
World Ex. Eurobloc (1950)	105.61	-1.7	107.92	88.74	105.37	103.72	-1.4	1.55	107.49	109.19	88.32	107.31	105.21	109.05	83.09	—
World Ex. US (1679)	213.73	-1.5	194.94	151.04	213.23	179.88	-1.0	1.91	217.04	196.19	149.98	216.88	181.84	221.91	165.85	175.30
World Ex. UK (2088)	302.88	-1.8	275.38	214.03	302.15	268.74	-1.5	1.43	308.29	278.67	213.04	307.79	272.94	311.48	224.66	234.66
World Ex. Japan (1850)	414.51	-1.7	376.90	292.93	413.54	404.10	-1.8	1.83	421.53	381.03	291.29	420.84	410.75	427.99	318.78	318.78
The World Index (2295)	309.55	-1.7	281.46	218.76	308.83	275.85	-1.5	1.57	314.98	284.72	217.66	314.47	279.85	318.51	242.08	242.08

Emerging markets: IFC investable indices

Dollar terms

Jan 12 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	755.07	-3.7	-5.3
Brazil	237.88	-5.3	-13.6
Chile	426.72	-2.8	-5.4
Colombia[1]	419.75	-3.8	-4.5
Mexico	420.43	-4.7	-12.7
Peru[2]	135.74	-1.8	+1.0
Venezuela[3]	408.01	-5.2	-9.8
East Asia			
China[4]	26.41	-1.9	+0.8
India[5]	70.44	-2.2	+0.7
Indonesia[6]	26.86	-1.2	+10.1
Korea[3]	60.10	-2.7	+13.1
Malaysia	92.16	-0.8	+4.1
Pakistan[7]	91.44	+0.7	-3.3
Philippines	132.46	-0.2	+7.5
Sri Lanka[10]	78.45	+0.6	-3.5
Taiwan, China[4]	116.56	-0.7	+0.6
Thailand	71.55	-0.4	+13.3
Europe			
Czech Rep	52.20	-1.5	+2.9
Greece	674.24	-0.1	+8.9
Hungary[8]	302.90	-0.5	+7.9
Poland[10]	577.88	-3.5	+10.4
Portugal	305.95	-1.3	+4.8
Russia	24.26	-2.8	+3.5
Slovakia	43.75	-0.8	+0.3
Turkey[11]	147.71		+0.9
Mideast/Africa			
Egypt	89.09	+1.9	+7.2
Israel	105.76	-0.6	+4.4
Jordan	220.40	-0.9	+1.8
Morocco	166.84	-0.4	-0.5
S Africa[13]	133.92	-1.2	+7.0
Zimbabwe[14]	108.21	-0.8	-4.9
Regions			
Composite	188.60	-2.1	+1.0
Latin America	376.79	-4.3	-10.2
Asia	115.03	-1.6	+7.4
EMEA	121.24	-0.8	+8.1
Europe	189.17	-0.8	+6.2
Eastn Europe	62.28	-1.8	+7.1
ME & Africa	58.77	-0.9	+5.9
Comp + Malay	191.78	-2.1	+1.2
Asia + Malay	115.41	-1.5	+8.7

Base date: Dec 1988=100 except (those noted) which are: (1)Feb 1 1993; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1995; (6)Jan 4 1993; (7)Jan 6 1992; (8)Sep 30 1993; (9)Mar 1 1993; (10) Dec 31 1993; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)May 2 1996; (16) July 2 1998.
Latest indices were unavailable for this edition.

4 pm close January 13

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

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- J -

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- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
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EUROBENCH® "INSECTS®" INDICES

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Sector		SETT	Close	Previous	Change on day	% Change	1998 High	1998 Low
		13-01-1999		11-01-1999				
[illegible]	USD	2287.30	2258.42	2307.89	-49.45	-2.14	2454.20	1445.56
[illegible]	EUR	2745.82	2677.87	2739.36	-61.49	-2.24	3080.15	1650.77
Non-durable goods	USD	1968.72	1934.81	1968.33	-33.57	-1.70	2084.58	1254.06
[illegible]	EUR	2352.82	2294.16	2336.40	-42.24	-1.80	2419.19	1594.77
[illegible]	USD	1291.30	1288.25	1290.88	-2.63	-0.20	1633.56	1122.92
[illegible]	EUR	1533.30	1527.51	1532.22	-4.71	-0.30	2227.16	1301.56
Pharma-chemicals	USD	1562.16	1549.33	1571.18	-22.05	-1.40	1690.60	1256.36
[illegible]	EUR	1894.81	1880.05	1908.91	-28.86	-1.50	2175.51	1445.82
[illegible]	USD	2708.42	2707.41	2704.57	+2.84	+0.10	2825.60	1587.01
[illegible]	EUR	3213.09	3210.35	3210.32	+0.03	+0.00	3314.13	1862.52

Further information about the INSECTS and constituents are available for download on our web-site HTTP://WWW.EURO-INSECTS.COM and further information about EuroBench is on HTTP://WWW.EUROBENCH.COM. A free daily email service can also be subscribed to on the web. For hard copy information please call London (+44 171 336 7883) or Brussels (+32 2 509 94 60).

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 12	Jan 11	Jan 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9474.68	9619.89	9643.32	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	106.53	106.49	106.38	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3206.85	3286.32	3360.28	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	308.58	307.41	310.14	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	15.53 (8/7/32)

DJ Ind. Day's high 9680.40 (9781.46) Low 9394.40 (9445.39) (Theoretical‡)
Day's high 9620.15 (9643.32) Low 9451.77 (9532.61) (Actual‡)

Standard and Poors	Jan 12	Jan 11	Jan 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1239.51	1263.88	1275.09	1275.09 (8/1/99)	927.69 (9/1/98)	1275.09 (8/1/99)	4.40 (1/6/32)
Industrials¥	1487.92	1516.76	1527.38	1530.43 (8/1/99)	1077.40 (9/1/98)	1530.61 (8/1/99)	3.52 (30/6/32)
Financial¥	133.43	138.58	138.87	147.69 (14/7/98)	95.80 (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	594.59	604.04	611.06	611.86 (8/1/99)	477.20 (8/10/98)	611.86 (8/1/99)	4.64 (25/4/42)
Amex Comp	699.65	707.32	707.76	753.87 (22/4/98)	583.75 (8/10/98)	753.87 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2320.75	2384.59	2344.41	2384.59 (11/1/99)	1419.12 (8/10/98)	2384.59 (11/1/99)	54.87 (8/10/74)
Russell 2000	427.36	433.13	431.23	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Jan 8	Dec 31	Dec 24	Year ago
Dow Jones Ind. Div. Yield	1.58	1.66	1.65	1.81
	Jan 6	Dec 30	Dec 23	Year ago
S & P Ind. Div. yield	1.11	1.17	1.17	1.49
S & P Ind. P/E ratio	39.11	37.82	37.69	25.98

US DATA

MARKET ACTIVITY

Volume (million)	Jan 12	Jan 11	Jan 8
NYSE	800.200	818.090	940.069
Amex	29.483	27.954	28.125
NASDAQ	1114.61	1147.38	1288.47

NYSE	Jan 12	Jan 11	Jan 8
Issues Traded	3,530	3,583	3,551
Rises	880	1,165	1,502
Falls	2,176	1,853	1,518
Unchanged	474	565	531
New Highs	49	54	98
New Lows	35	38	19

NYSE TRADING ACTIVITY — Volume : 909,260,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Disney	15,381,800	37¾	+2⅞
AmOnLne	13,780,700	153¾	−11¼
Citigrp	11,221,200	58¼	−1½
Compaq	9,532,400	46¾	−1¼
Gillte	8,240,000	55	+2½
Chsmnh	7,053,000	74	−3¼
AT&T	6,898,300	84	−1¼
McKesn	6,750,900	84⅞	−1⅝
WorLom	6,244,200	70⅞	−1⅝
Mattel	5,860,200	23¾	+⅞

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
FrtgHut	17⅝	+1⅞	+12.1
CadenceDsgn	33⅝	+2⅞	+9.2
LndEnd	27⅛	+2	+8.0
IkonOS	11⅝	+⅞	+7.5
Downs			
ArrwEl	19⅞	−3⅜	−14.7
FrMCGB	11⅛	−1⅝	−12.4
Equant	72¼	−8⅛	−10.1
Chemfab	19¾	−1⅞	−8.9

NASDAQ TRADING ACTIVITY — Volume :1,114,614,000

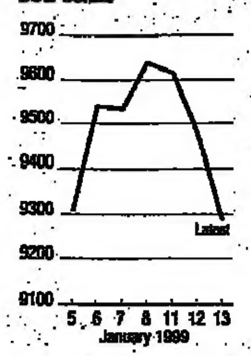
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Intel	25,507,100	135⅞	−4⅞
CiscoSys	24,413,300	98¾	−6⅞
Micsft	14,410,300	142⅞	−5⅞
Lycos	14,403,700	104¾	−28¾
Excite	14,085,800	75¾	−5¾
E trade	13,849,700	100⅞	+12⅞
DellCmp	13,358,100	80⅞	−1⅞
Yahoo	12,986,800	402	−13¾
Amz.com	12,129,700	183¾	−21¼
AscendCom	11,774,600	74⅞	−1¼

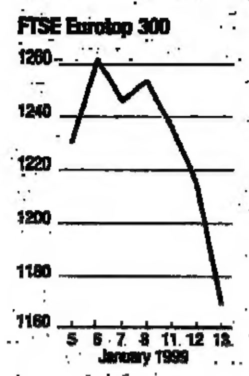
BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
AmeriTrade	59	+16	+37.2
DoubleClk	100⅞	+22¾	+28.5
E trade	100⅞	+12⅞	+14.1
HelixTech	18⅞	+2¼	+13.9
Downs			
ChemclcalF	22¾	−6¾	−23.5
Lycos	104¾	−26¾	−20.2
Athome	100	−21⅞	−17.8
eBay Inc	240¾	−51	−17.5

Dow Jones



FTSE Eurotop 300



JAPAN

	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	13483.80	13360.97	13368.48	17264.3	12880	38915.9	85.25

Day's high: 13444.34 Day's low 13313.77

TOKYO TRADING ACTIVITY — Volume : 375,530,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
MitTrB	17,665,000	103	−7
Hitachi	11,388,000	765	+9
MtbElec	9,405,000	388	+3
NEC	8,074,000	1152	+22
Tshiba	7,800,000	700	+13
Mtsmh	7,628,000	398	+10
YasTrB	7,431,000	78	−7
RpSU	5,573,000	198	−4
FujiBk	4,853,000	458	+19
NKK	4,791,000	70	−3

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
CanSls	205	+24	+13.3
Iseki	128	+15	+13.2
Shimzu	2715	+265	+10.8
MbSU	105	+10	+10.5
Downs			
YasTrB	75	−7	−8.4
KawHvy	223	−20	−8.2
Sttbnk	7820	−600	−7.1
MitTrB	103	−7	−6.4

FRANCE

	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	3958.72	4100.70	4201.90	4388.48	2862.54	4388.48	984.61

Day's high: 4057.65. Day's low: 3845.77

PARIS TRADING ACTIVITY — Volume : 882,776,300

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
FrTele	2,670,238	70.5	−1.3
Axa	1,851,694	120	−4.4
Usinor	1,686,072	9.93	−0.7
Alctel	1,645,107	105.8	−8.2
BNP	1,558,561	68.1	−4.85
SocGen	1,526,791	141.8	−11.1
Paribas	1,485,676	75	−3.35
Renault	1,273,452	37.6	−3.55
TotalB	1,248,892	95	−3.2
RhonPA	1,207,180	43.2	−2

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
ClubMd	70	+1.7	+2.5
AirLiq	158	+3.7	+2.4
Valeo	69	+1.55	+2.3
PrnRic	52	+1	+2.0
Downs			
Renault	37.6	−3.55	−8.6
Sab SA	56.1	−4.9	−8.0
StGobn	116	−9.2	−7.3
Crtbur	619	−49	−7.3

GERMANY

	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4931.80	5200.10	5270.60	6171.43	3896.08	6171.43	931.18

Day's high: 5189.00. Day's low: 4856.41.

FRANKFURT TRADING ACTIVITY — Volume : (a)

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
DmlrCh	998,399	85.1	−5.4
BASF	911,408	31.7	+0.2
Dt Bk	735,757	49.9	−3.95
Cmmzbk	724,085	25.7	−1.6
Lufthn	641,991	18.8	−0.9
Bayer	600,678	33.5	−1.2
Siemns	464,627	59	−2.77
Dt Tel	449,598	31.2	−1.85
RWE	421,881	43.3	−2.8
VW	416,405	68.7	−5.8

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Strbag	53	+3.25	+6.5
HeidZm	68.5	+2	+3.0
VEW	265	+7.5	+2.9
Mnaig	12.4	+0.3	+2.5
Downs			
GEA	20	−2.5	−11.1
CoBkz	92	−9.5	−9.4
Drgwk	12.3	−1.25	−9.2
DresBk	35.7	−3.6	−9.2

UK

	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	5850.1	6033.6	6085.0	6179	4648.7	6179	986.9

Day's high: 6033.6. Day's low: 5748.5

LONDON TRADING ACTIVITY — Volume : 1,208,500,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
BPB	34,588,240	188	−8½
BP Amoco	32,772,510	883½	−23
Tesco	20,785,530	180¼	−4½
Br Telecom	18,159,910	982½	−17
Lloyds TSB	17,786,030	821½	−43
TeleWest	15,335,440	202½	−10½
Shell	15,072,470	346	−3
BG	14,472,160	390½	+7
HSBC (75p)	14,069,510	1628	−125
Siebe	13,536,710	208½	−9½

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
On-Line	57½	+12	+26.4
Screen	11½	+⅛	+25.0
Clarke T	112½	+14	+14.2
Zotefoams	90	+10½	+13.2
Downs			
Cirqual	134	−68½	−33.8
Morgan Cr	183½	−79	−30.1
Yorkclyde	58½	−20½	−26.8
Wassard	68½	−21½	−23.8

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1265.00	1224.00	−27.10	1254.20	1210.00	114,433	387,452
Jun	1238.00	1238.50	−24.50	1278.00	1222.00	321	7,005

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	13420.0	13440.0	+60.0	13460.0	13290.0	18,896	190,279
Jun	13220.0	13220.0	–	13220.0	13220.0	2	29,947

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	4064.0	3870.0	−140.0	4101.5	3850.0	119,506	670,567
Feb	4058.0	3879.5	−140.5	4058.0	3867.0	7,124	7,625

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	5185.0	5021.0	−209.0	5225.5	4868.5	90,167	119,976
Jun	5199.0	5053.5	−202.5	5199.0	4906.0	7,512	8,386

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	703.00	689.00	−19.00	703.00	675.75	46,282	174,880
Feb	701.50	693.00	−18.50	701.50	680.00	5,101	5,036

EOE	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	7383.0	7179.0	−268.0	7415.0	7002.0	63,812	140,831
Jun	7277.0	7128.0	−287.0	7277.0	6969.0	401	2,085

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General	15385.27	16319.51	16889.11	23486.50 23/3/98	12303.10 10/9/98	4.29	11.4

Market pulled up from early 10 per cent tumble in midsession trade.

Country	Index	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Yield	P/E
Australia	All Ordinaries	2822.0	2846.3	2849.4	2897.30 7/1/99	2458.29 1/9/98	3.29	22
	All Mining	613.0	613.5	594.6	713.10 23/4/98	469.80 31/8/98		

[illegible]

Country	Index	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Yield	P/E
Hungary	Bux	6158.51	6828.34	6841.09	9018.36 23/4/98	3725.82 21/8/98	na	na

Market crashed almost 10 per cent, hit by foreign investor apprehension about emerging markets.

Country	Index	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Yield	P/E
India	BSE Sens.	3310.46	3353.22	3433.21	4280.96 21/4/98	2764.16 20/10/98		
	Crisil 500	667.73	684.78	678.24	815.92 21/4/98	557.88 20/10/98	na	na

[illegible]

Country	Index	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Yield	P/E
Portugal	BVL 30	4992.03	5076.13	5134.93	6176.89 22/4/98	3588.08 2/10/98	1.97	28.5
	PSI 20	11254.79	11635.04	11827.95	14283.00 22/4/98	8114.81 2/10/98		

Finance minister described bourse's sharp fall as exaggerated and emotional.

Country	Index	Jan 13	Jan 12	Jan 11	1998/99 High	1998/99 Low	Yield	P/E
Russia	RTS	55.64	60.16†	61.34	411.81 5/1/98	38.53 5/10/98	na	na

Shares marked sharply lower, in spite of feeling that prices were already at basement levels.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close January 13

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close January 13

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Brazil reignites emerging market fears

WORLD OVERVIEW

Stock markets in Europe and the Americas plunged as news that Brazil had in effect devalued its currency rekindled fears of a crisis in emerging markets, *writes Michael Peel.*

But analysts saw signs of hope in the relative stability of the Dow Jones Industrial Average, a strong influence on the performance of European markets. The Dow fell 2.8 per cent in early trading, but recovered to 9,401.05, down 73.63 or 0.8 per cent, by mid-afternoon.

São Paulo fell more than 10 per cent within 15 minutes of opening before starting a recovery that local traders said was based on government buying. By mid-afternoon the Bovespa index was 6.2 per cent lower, with most other Latin American markets down between 2.5 per cent and 7.5 per cent.

In western Europe, many bourses fell in early trading and later dropped below the levels at which they had started the year. The main loser was Madrid, down 6.5 per cent on worries about corporate Spain's exposure to Latin America, while Frankfurt shed 4.1 per cent and Paris 3.5 per cent.

Neil Cooper, European strategist for BT Alex Brown, said he expected the continent's markets to retreat another 10 or 15 per cent in the short term. "I think over the first quarter of this year we are going to see markets coming under increasing pressure as people become aware of slowing economic growth feeding through to earnings," he said. "We have got to see markets climb down before they can go up in a sustained manner."

Earlier, a sharp fall in Hong Kong triggered dips in a number of Asian markets. Investors were reacting to fears that Hong Kong-listed affiliates of mainland Chinese groups and government bodies could have higher levels of debt than supposed.

Guangnan (Holdings), owned by the Chinese province of Guangdong, said on Tuesday that it had insufficient cashflow to meet a $115m debt payment due this month. Shares in Guangnan plummeted 53 per cent yesterday, while the index of China-affiliated corporations dived 12.5 per cent.

Andrew Salton, assistant emerging markets portfolio manager for Old Mutual Asset Managers (UK), said investors should not be surprised by Guangnan's announcement. Poor standards of corporate disclosure made financial assessments difficult.

"Hong Kong and overseas investors have always been far too optimistic about China," he said. "Now we are getting an increase in the China risk premium, which has probably been far too low for far too long."

Dow launches fightback after morning falls

AMERICAS

US shares fell heavily on the news of the Brazilian devaluation but made determined recovery strides in later trading, *writes John Labate in New York.*

A rebound in high-tech shares helped bring the market back from losses on the Dow Jones Industrial Average of more than 230 points. By midday the Dow was off 130.01 at 9,344.67. The Standard & Poor's 500 index was down 6.26 at 1,233.25.

US Treasuries rallied on a flight to quality as stocks sold off early on, sending the long bond more than 2 points higher at one stage. But as stocks recovered, bonds came off their best gains of the morning. At midday, the benchmark long bond was up ⅞ at 101⅞, sending the yield lower at 5.149 per cent.

Financial shares were among the hardest hit by the morning sell-off. Among Dow components, Citigroup was off $3¼ or more than 6 per cent to $52¾ and J.P. Morgan $4¼ at $107⅛. The banks index of the American Stock Exchange was 2.8 per cent lower at 811.70. Brazilian American depositary receipts tumbled in the US market, with Unibanco off $2 to $10⅛.

Investors were quick to return to computer-related shares by late morning. The Nasdaq composite index, weighted in high-tech shares, was down more than 100 points at its worst, but by early afternoon it was off by 2.23 at 2,318.52.

Shares of Ascend Communications surged $5⅛ to $80 after Lucent Technologies announced it was taking over the company. Lucent's shares were down $4⅞ at $103⅞. Other telecom stocks were higher, with Bell Atlantic up $¾ to $54¾ after announcing a new venture with America Online, the internet service provider.

Hewlett-Packard, one of two Dow computer companies, was $1¾ higher at $72⅛. Semiconductor shares rallied, one day after Intel reported its quarterly results. Intel had gained another $3¾ at $139⅛.

Yahoo!, the online portal company, was $9½ down to $392½ after a downgrade to "buy" from "strong buy" by BT Alex Brown.

TORONTO fell back along with other western markets, with banking and industrial stocks leading the decline.

By midsession, the 300 composite index was 211.58 or 3.2 per cent lower at 6,489.25.

Financial services shed 4.8 per cent and industrial products lost 3.7 per cent. Canadian Imperial Bank of Commerce fell C$1.25 or 3.2 per cent to C$38, while Royal Bank of Canada dropped C$1.60 or 2 per cent to C$79.50.

Debt fears depress Madrid

EUROPE

Brazil's devaluation of the real sent shock waves through the European banking sector, notably in **MADRID**, where steep falls for Santander and BBV sparked the steepest one-day decline for Spanish shares since August 1991.

Santander fell €1.95 to €14.28 and BBV came off €1.83 at €11.69 – falls of more than 12 and 13.5 per cent respectively – as concern at the banks' heavy exposure to Latin American lending sparked a wave of near frantic selling.

Telecoms giant Telefónica tumbled €2.88 or 7.2 per cent to €36.72. The benchmark general index finished at its low for the session at 827.77, down 57.50.

The FTSE Eurotop 300 index fell 46.26 or 3.80 per cent to 1,169.65. See Euro Prices page.

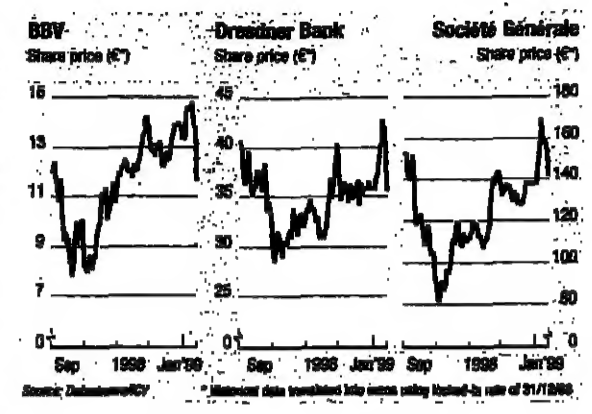
FRANKFURT was hard hit as its exporters and banks were stung by the weakening dollar and concerns over how far Brazil's financial crisis would have knock-on effects. The Xetra Dax index tumbled to a low of 4,849.78 before erasing some of the loss to close 214.01 lower at 4,982.12.

The banking sector, already unsettled by the impact of its exposure to China's failed Gitic trust, was sharply lower. One analyst noted that the sector had made only limited risk provisions for South America and any collapse would require substantially more.

Deutsche Bank fell €3.92 to €50 . Dresdner Bank lost €3.20 to €36.30 and Commerzbank dropped €1.27 to €25.90.

Exporters, hurt by dollar weakness against the euro, were also hit. Volkswagen, due to inaugurate its first car plant in southern Brazil next week, fell €3.60 to €70. DaimlerChrysler, whose Mercedes-Benz is due to open a factory in Brazil by the end of February, fell €4.70 to €86.30.

BMW, which had agreed to develop an engine plant in Brazil with Chrysler before the Daimler-Chrysler merger, lost €31 to €851.



Source: Datastream/ICV

Other exporters under pressure included Degussa, €2.75 down at €42.20. However, BASF, Europe's largest chemicals maker, managed a rise of €1.25 to €32.65 on news that it would start buying back 5 per cent of its shares during the course of this year.

PARIS ended off the bottom with the CAC-40 index down 141.9 at 3,958.72 after a low for the day of 3,845.77. Renault was the day's steepest faller, sliding €3.55 or 8.8 per cent to €37.60.

THE DAY'S CHANGES

	% change
Madrid	-6.5
Amsterdam	-5.4
Frankfurt	-4.1
Milan	-4.1
Zurich	-4.1
Paris	-3.5
Stockholm	-2.8

Banks were visibly weak. BNP fell €4.95 to €68.10 and Société Générale came off €11.10 at €141.80.

LVMH chose the wrong day on which to announce that it had no plans to launch a full-scale takeover bid for Gucci, the Italian fashion house in which it has a 5 per cent stake. The shares ended €13.40 lower at €193.

Alcatel lost €6.20 at €105.80 with sentiment not helped by rumours of an impending US merger for Ascend Communications, with whom Alcatel recently announced a development alliance.

AMSTERDAM fell 28.95 to 507.29 on the AEX index, led lower by steep falls among financials.

ABN Amro tumbled €1.65 or 8.6 per cent to €17.50 in supercharged volume with 23.8m shares changing hands. ING fell €5 to €49, a decline of 9.2 per cent.

Tech-related weakness in the US hit both Baan and ASM Lithography. The former shed €1.20 or 10.6 per cent at €10.15 and ASM came off 95 cents at €33.55. Philips ended €4.06 at €59.35.

Gucci, buoyed recently by investor hopes for a bidding war, was hit by the news that French luxury goods leader LVMH did not plan a takeover. The shares fell €2.80 at €55.10.

ZURICH took a tumble, hit by losses in financials and by heavy foreign selling in Nestlé. The SMI index recorded a loss of 302.2 at 7,125.0.

UBS slid SFr28 to SFr429 while CS Group, especially sensitive to concerns about Brazil after its purchase of Banco Garantia last year, tumbled SFr12 to SFr219.

Nestlé, which saw heavy foreign selling, tumbled SFr167 to SFr2,721.

Cement group Holderbank was the biggest loser among the blue chips with a loss of SFr137 or 8 per cent to SFr1,580. Brazil is one of the company's largest markets in Latin America.

Among the pharmaceuticals, certificates in Roche, which posts 1998 sales figures today, tumbled SFr600 to SFr17,270. Merrill Lynch has published a price target for Roche of SFr20,700 while CSFB has set its sights on SFr20,000.

MILAN picked up from its lows late in the session but the real-time Mibtel index still registered a loss of 985 at 23,134.

Shares in companies with big exposure to Brazil were the hardest hit, with Fiat losing 21.5 cents to €2.88 and Parmalat which lost 14 cents to €1.35.

Olivetti sprinted late in the session to close just 3 cents lower at €3, having picked up from an 8 per cent intraday loss.

Written and edited by Michael Morgan, Jeffrey Brown and Paul Gregan

Currency crisis sends Latin America spinning

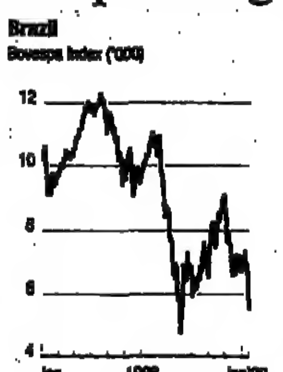
News of the Brazilian currency devaluation sent Latin American stock markets steeply lower from the opening bell.

SAO PAULO was 10 per cent lower within minutes of the start of trading, prompting heavy government intervention, brokers said.

By midsession losses on the Bovespa index had been narrowed to 206 or 3.5 per cent at 5,709.

Currency worries about the real had been building for days. Over the four previous sessions, losses had totalled almost 21 per cent.

SANTIAGO also fell steeply. At midsession, the IPSA index was off 3.80 or 4 per cent at 90.61.



Source: Datastream/ICV

CARACAS, hit in recent sessions by weak oil prices, gave up 85.23 at 4,263.47 at midsession.

Rand slips to 4-month low

SOUTH AFRICA

Johannesburg fell steeply as news of Brazil's devaluation sent shivers through the rand and put back hopes for lower interest rates.

The rand fell to a four-month low and financial shares streamed lower. RMB Holdings fell 100 cents or 8 per cent at R10.80. Among banks, Nedcor lost 560 cents to R113 and Standbic 145 cents at R17.

The all share index ended 247.4 or 4.2 per cent lower at 5,615.6. Golds lost 9.7 at 962.

Red chips spark HK sell-off

ASIA PACIFIC

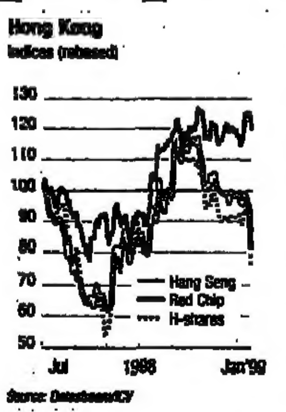
Worries about the mounting debts of Chinese enterprises and higher interbank interest rates sparked a significant sell-off in HONG KONG.

The Hang Seng index fell more than 4 per cent or 437.79 to 10,273.77. China-linked shares were harder hit. The red-chip Hang Seng China-Affiliated Corporations index plunged 12.5 per cent and H-shares tumbled 11.5 per cent.

Analysts noted that higher-than-expected debt levels of $2.9bn at Guangdong Enterprises, reported on Tuesday, sparked investor fears other China-affiliated companies may have similar debt problems.

Shares in Guangdong Enterprises' subsidiary Guangnan (Holdings) plummeted 52.8 per cent or 66 cents to 59 cents while Guangdong Investment slid 24.3 per cent, Guangdong Brewery tumbled 14.3 per cent and Guangdong Tannery slid 5.4 per cent.

TOKYO regained some of its calm as currency moves stabilised but, shares drifted in quiet trading owing to a lack of incentives, *writes Michiyo Nakamoto.*



Source: Datastream/ICV

The benchmark Nikkei average closed 42.63 higher at 13,403.60 after moving between 13,313.77 and 13,441.34. The broader-based Nikkei 300 ended the day up 0.37 at 209.89 while the Topix index of all listed issues gained 1.15 to 1,057.08. Declining issues outnumbered gainers 650 to 459 despite the overall rise, and 201 were unchanged.

Trading was sluggish on concerns the currency markets could see further turbulence. Fears a downturn on Wall Street could be triggered by the economic uncertainty in Brazil also made for a bearish tone.

Turnover in Tokyo was consequently light with 376m shares traded, against 361m on Tuesday.

Comments by Hiroshi Okuda, president of Toyota, fuelled lingering concerns about the adverse impact of the strong yen on Japanese companies. Mr Okuda said an exchange rate of Y110 to the dollar would aggravate the economic downturn. Toyota was down Y80 at Y2,675.

But other exporters gained as the dollar firmed. Sony rose Y170 to Y7,560 and Canon Y80 to Y2,290.

JAKARTA was hit by a sudden plunge in the rupiah that raised fears of higher foreign exchange losses for indebted companies and sparked across-the-board selling of blue chips.

The composite index ended 17.09 or 3.9 per cent weaker at 419.10.

Analysts said the market had expected corporate full-year results to show a less gloomy picture than six and nine-month figures as the rupiah's recent gains had cut the value of companies' foreign debt and the size of their foreign-exchange losses. But these gains could unravel if the rupiah continued to fall.

SYDNEY moved lower with heavy selling of financials offsetting broad resilience among resource stocks. The banks and finance index came off 1.3 per cent. NAB fell 65 cents or 2.5 per cent to A$25.19.

The All Ordinaries index was down 24.3 at 2,822.0.

WELLINGTON was hit by profit-taking among selected leaders. Lion Nathan shed 19 cents or 4 per cent to NZ$4.55, while Carter Holt Harvey lost 4 cents at NZ$1.78 for a two-day decline of almost 7 per cent.

The 40 capital index ended off 29.23 at 2,107.37.

SINGAPORE lost 2 per cent as investors responded to the sharp fall in Hong Kong. Bank stocks fell sharply as the Straits Times index closed 30.92 lower at 1,506.06.

The biggest losers were UOB foreign, down 60 cents or 5.5 per cent at S$10.30, DBS local, 40 cents or 4.3 per cent lower at S$8.90 and OUB foreign, back 40 cents or 5.4 per cent at S$7.

BANGKOK dived on fears about the prospects for Chinese-affiliated companies.

Financials were again the main sufferers, leading the SET index 14.23 or 3.6 per cent down to 385.58.

Financials lost 4.7 per cent and banks shed 4.6 per cent.

EMERGING MARKET FOCUS

Mexico braced for real trouble

A long feared devaluation of the Brazilian real yesterday saw Mexico's stock market tumble as reaction spread to Latin America's already shaky markets, casting a shadow on the region's bleak economic outlook.

The IPC index was down more than 3 per cent at midday, off lows after a $200m auction by the central bank that checked the fall of the currency. But peso weakness was expected to continue in coming weeks, complicating efforts by the central bank to control inflation.

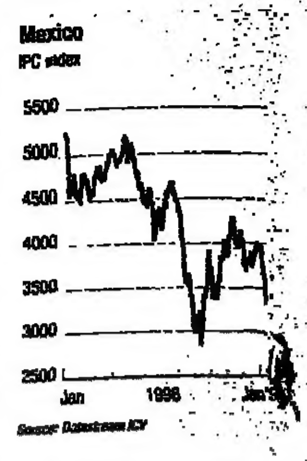
Most economists doubt the government's 13 per cent inflation target will be met. Estimated gross domestic product growth for the year, already down to 2.5 per cent from last year's estimated 4.5 per cent, could slow to a trickle, say analysts.

"We had expected the peso to close at 11.08 to the dollar at the end of the year and it's already at that now," said Damian Fraser, director of Mexican research for the brokerage Warburg Dillon Read. "This is a new economic scenario – lower growth, even higher interest rates and a weaker currency."

And it is unlikely to improve soon for Mexico or the rest of Latin America as market watchers brace for another eventual devaluation of the real in the face of ongoing turmoil.

"All of Latin America is being held hostage by an impending crisis in Brazil, and until it is resolved you won't see investor commitment in any country, including Mexico," said Jorge Mariscal, head of Latin American strategy for Goldmann Sachs in New York.

Mexico's stock market had already got off to a bad start, dropping every day since the beginning of the new year. The main IPC index had declined almost 20 per cent and was further hammered this week as the spread on 28-day Treasury bills jumped 372 percentage points. The drop follows on the heels of last year's fall of 38.4 per cent – the worst showing since the 1994 currency crisis.



Source: Datastream/ICV

Along with overspill from Brazil, the market has been further clouded by concerns on the home front over an eleventh-hour budget passed on December 31. The budget, while applauded for keeping the country's fiscal deficit at 1.25 per cent of GDP in the face of falling oil prices, boosted inflation and introduced tax reforms that confused business leaders and raised questions about corporate earnings.

Before yesterday's setback, brokerages had been predicting the market would rise in 1999 on the strength of a hardy US economy and an increase in oil prices, up 30 per cent since December. But bets are off after the Brazilian devaluation.

The one glimmer of hope is that Mexico could provide a "safe haven" for emerging market investors looking to get out of Brazil and neighbouring Argentina, especially if the robust US economy on Mexico's doorstep weathers the storm.

Mexico's industrial sector, including auto parts maker Desc, which exports heavily to the US, could be attractive options, say analysts.

Andrie Mandel-Campbell